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

Form 10-K

(Mark One)

☑ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the fiscal year ended December 31, 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)*

Securities registered pursuant to Section 12(b) of the Exchange Act:

Title of Each Class	**Name of Each Exchange on Which Registered**
Class A common stock, par value $0.01	The NASDAQ Global Market

Securities registered pursuant to Section 12(g) of the Exchange Act:
None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No ☑

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes o No ☑

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act 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 a check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

Large Accelerated Filer o	Accelerated Filer o	Non-Accelerated Filer ☑ (Do not check if a smaller reporting company)	Smaller Reporting Company o

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

There was no active trading market for the registrant's common equity as of June 30, 2007. As of August 2, 2007 (the date that the registrant's class A common stock, par value $0.01 per share, began trading on the NASDAQ Global Market), the aggregate market value of the voting and non-voting common equity of the registrant held by non-affiliates was approximately $190.0 million, based on the closing price of the registrant's class A common stock reported on the NASDAQ Global Market on such date of $12.20 per share.

As of March 20, 2008, there were outstanding 15,542,768 shares of the registrant's class A common stock, par value $0.01 per share, and 26,191,050 of the registrant's class B common stock, par value $0.01 per share.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant's Proxy Statement for its 2008 Annual Meeting of Stockholders to be held on June 5, 2008, which Proxy Statement is to be filed within 120 days after the end of the registrant's fiscal year ended December 31, 2007, are incorporated by reference in Part III of this Annual Report on Form 10-K.

Sucampo Pharmaceuticals, Inc.

Form 10-K

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PART I

This Annual Report on Form 10-K, including the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations," 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. Forward-looking statements may be identified by the words "project," "believe," "anticipate," "plan," "expect," "estimate," "intend," "should," "would," "could," "will," "may" or other similar expressions. In addition, any statements that refer to projections of our future financial performance, our anticipated growth and trends in our business, and other characterizations of future events or circumstances are forward-looking statements. We cannot guarantee that we will achieve the plans, intentions or expectations expressed or implied in our forward-looking statements. There are a number of important factors that could cause actual results, levels of activity, performance or events to differ materially from those expressed or implied in the forward-looking statements we make. These important factors are described under "Risk Factors" set forth below. In addition, any forward-looking statements we make in this document speak only as of the date of this document, and we do not intend to update any such forward-looking statements to reflect events or circumstances that occur after that date.

ITEM 1. ***BUSINESS***

Overview

We are a specialty biopharmaceutical 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. The therapeutic potential of prostones was first identified by one of our founders, Dr. Ryuji Ueno. We believe that most prostones function as activators of cellular ion channels and, as a result, may be effective at promoting fluid secretion and enhancing cell protection, which may give them wide-ranging therapeutic potential, particularly for age-related diseases. We are focused on developing prostones with novel mechanisms of action for the treatment of gastrointestinal, respiratory, vascular and central nervous system diseases and disorders for which there are unmet or underserved medical needs and significant commercial potential.

In January 2006, we received marketing approval from the U.S. Food and Drug Administration, or FDA, for our first product, AMITIZA ® (lubiprostone), for the treatment of chronic idiopathic constipation in adults of all ages. AMITIZA is the only prescription product for the treatment of chronic idiopathic constipation that has been approved by the FDA for use by adults of all ages, including those over 65 years of age, and that has demonstrated effectiveness for use beyond 12 weeks. Constipation becomes chronic when a patient suffers specified symptoms for more than 12 non-consecutive weeks within a 12-month period and is idiopathic if it is not caused by other diseases or by use of medications. Studies published in *The American Journal of Gastroenterology* estimate that approximately 42 million people in the United States suffer from constipation. Based on these studies, we estimate that approximately 12 million people can be characterized as suffering from chronic idiopathic constipation. In an additional study published in *The American Journal of Gastroenterology*, 91% of physicians expressed a desire for better treatment options for constipation.

AMITIZA increases fluid secretion into the intestinal tract by activating specific chloride channels in cells lining the small intestine. This increased fluid level softens the stool, facilitating intestinal motility and bowel movements. In addition, AMITIZA improves symptoms associated with chronic idiopathic constipation, including straining, hard stools, bloating and abdominal pain or discomfort.

We are party to a collaboration and license agreement with Takeda Pharmaceutical Company Limited, or Takeda, to jointly develop and commercialize AMITIZA for chronic idiopathic constipation, irritable bowel syndrome with constipation, opioid-induced bowel dysfunction 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 April 2006. Takeda is marketing AMITIZA broadly to office-based specialty physicians and primary care physicians. We are complementing Takeda's marketing efforts by promoting AMITIZA through a specialty sales force in the institutional marketplace, including specialist physicians based in academic medical centers and long-term care facilities. This institutional market is characterized by a concentration of elderly patients, who we believe

will be a key market for AMITIZA to treat gastrointestinal indications, and by physicians who are key opinion leaders in the gastrointestinal field. We have performed all of the development activities with respect to AMITIZA and Takeda has funded a portion of the cost for these activities. We have retained the rights to develop and commercialize AMITIZA outside the United States and Canada and to develop and commercialize it in the United States and Canada for indications other than gastrointestinal indications.

We also plan to pursue marketing approval for AMITIZA for additional constipation-related gastrointestinal indications with large, underserved markets. We recently completed two pivotal Phase III clinical trials and a long-term safety trial of AMITIZA for the treatment of irritable bowel syndrome with constipation. In these trials, AMITIZA improved overall relief from symptoms associated with irritable bowel syndrome with constipation with statistical significance and was well tolerated. Based upon the results of these trials, we submitted a supplement to our existing new drug application, or NDA, for AMITIZA to the FDA in June 2007 seeking marketing approval for AMITIZA for the treatment of this indication. Under the Prescription Drug User Fee Act of 1992, or PDUFA, we expect the FDA to announce a decision regarding our application, or a PDUFA action, on or about April 29, 2008. According to the American College of Gastroenterology, irritable bowel syndrome affects approximately 58 million people in the United States, with irritable bowel syndrome with constipation accounting for approximately one-third of these cases. In addition, we commenced Phase III pivotal clinical trials of AMITIZA for the treatment of opioid-induced bowel dysfunction in September 2007.

We also plan to pursue marketing approval for AMITIZA in Europe and the Asia-Pacific region for appropriate gastrointestinal indications based on local market disease definitions and the reimbursement environment. In February 2008, we submitted a marketing authorization application, or MAA, for lubiprostone, 24 micrograms, for the indication of chronic idiopathic constipation in adults in the United Kingdom. The MAA has been filed using the decentralized procedure with the United Kingdom, through its Medicines and Healthcare Products Regulatory Agency, serving as the reference member state, with additional applications subsequently filed with the member states of Belgium, Denmark, France, Germany, Ireland, the Netherlands, Spain and Sweden.

In November 2007, we initiated a multi-center Phase IIb dose-ranging study in Japan to evaluate the safety and efficacy of lubiprostone for treating chronic idiopathic constipation in adults.

In addition, we are developing other prostone compounds for the treatment of a broad range of diseases. The most advanced of these programs are:

- Cobiprostone (formerly SPI-8811) for the treatment of ulcers induced by non-steroidal anti-inflammatory drugs, or NSAIDs, portal hypertension, non-alcoholic fatty liver disease, disorders associated with cystic fibrosis and chronic obstructive pulmonary disease. 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 submitted an investigation new drug application, or IND, to the FDA in December 2007 for a Phase II proof-of-concept study of cobiprostone in patients with portal hypertension.
- SPI-017 for the treatment of peripheral arterial and vascular disease and central nervous system disorders. Initially, we are working on the development of an intravenous formulation of SPI-017 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 and Phase I clinical trials of the oral formulation in 2009.

We hold an exclusive worldwide royalty-bearing license from Sucampo AG, a Swiss patent-holding company, to develop and commercialize AMITIZA and 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 will in turn license back to us on an exclusive basis. AMITIZA, cobiprostone and SPI-017 are covered by perpetual licenses that cannot be terminated unless we default in our payment obligations to Sucampo AG. If we have not committed specified development efforts to any prostone compound other than AMITIZA, 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. Ryuji Ueno and Sachiko Kuno, our founders and controlling stockholders, 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. For this purpose, Drs. Ueno and Kuno will be deemed to control our company as long as either they together own a majority of the voting power of our stock or at least one of them is a member of our board of directors.

We are party to exclusive supply arrangements with R-Tech Ueno, Ltd., or R-Tech, a Japanese pharmaceutical manufacturer, to provide us with clinical and commercial supplies of AMITIZA and clinical supplies of our product candidates cobiprostone and SPI-017. These arrangements include provisions requiring R-Tech to assist us in connection with applications for marketing approval for these compounds in the United States and elsewhere, including assistance with regulatory compliance for chemistry, manufacturing and controls.

In August 2007, we completed our initial public offering of 3,125,000 shares of class A common stock at a public offering price of $11.50 per share, resulting in gross proceeds of approximately $35.9 million. After deducting underwriters' discounts and commissions and expenses of the offering, we raised net proceeds of $28.2 million. An additional 625,000 shares of class A common stock were sold by a selling stockholder and 562,500 shares were sold under an overallotment option by S&R Technology Holdings, LLC, or S&R, which is wholly-owned by our founders, Drs. Ueno and Kuno. We did not receive any proceeds from the sale of the shares by the selling stockholder or S&R.

Our two founders, Drs. Ueno and Kuno, together, directly or indirectly, own all of the stock of Sucampo AG and a majority of the stock of R-Tech. Drs. Ueno and Kuno also are controlling stockholders of our company and are married to each other. Dr. Ueno is our chief executive officer and the chairman of our board of directors and Dr. Kuno was, until June 2007, also an executive officer and director of our company. Dr. Kuno currently serves as our advisor of international business development.

Product Pipeline

The table below summarizes the development status of AMITIZA and our key product candidates. We currently hold all of the commercialization rights to the prostone compounds in our product pipeline, other than for commercialization of AMITIZA in the United States and Canada, which is covered by our collaboration and license agreement with Takeda.

Product/ Product Candidate	Target Indication	Development Phase	Next Milestone
AMITIZA	Chronic idiopathic constipation (adult)	Marketed in the U.S.	—
		Marketing Authorization Application submitted in nine European countries	Regulatory action by the European countries
		Phase IIb dose-ranging study in Japan ongoing	Phase III program in Japan
	Chronic idiopathic constipation (pediatric, patients with renal impairment and patients with hepatic impairment)	Phase IV pediatric, renal impairment and hepatic impairment trials ongoing	—
	Irritable bowel syndrome with constipation	Supplemental NDA filed	FDA action on the supplemental NDA (PDUFA action expected in late April 2008)
	Opioid-induced bowel dysfunction	Phase III pivotal trials ongoing	Filing of NDA or supplemental NDA with FDA

Product/ Product Candidate	Target Indication	Development Phase	Next Milestone
Cobiprostone	*Gastrointestinal*		
	Non-steroidal anti-inflammatory drug (NSAID) induced ulcers	Phase II trial ongoing	Phase II dose-ranging trial planned to commence in 2009
	Cystic fibrosis - gastrointestinal disorders (oral formulation)	Phase II trial completed	Phase II dose-ranging trial planned to commence in 2009
	Liver		
	Portal hypertension	Phase II proof-of-concept study ongoing	Phase II dose-ranging trial planned to commence in 2009
	Non-alcoholic fatty liver disease	Phase II trial completed	Pending availability of new diagnostic tool
	Pulmonary		
	Cystic fibrosis - respiratory symptoms (inhaled formulation)	Preclinical	Finalize inhaled formulation
	Chronic obstructive pulmonary disease	Preclinical	Finalize inhaled formulation
SPI-017	Peripheral arterial and vascular disease	Preclinical	Phase I trials of intravenous formulation planned to commence in 2008*
	Stroke	Preclinical	Phase I trials of intravenous formulation planned to commence in 2008*
	Alzheimer’s disease	Preclinical	Phase I trials of oral formulation planned to commence in 2009*

* Results from Phase I trials of both intravenous and oral formulations may be useful in development of any of these indications.

Additionally, we have recently initiated pharmacologic studies on six additional preclinical prostone compounds, including two combination candidates, as we focus on development and commercialization of therapies for age-related diseases.

Scientific Background of Prostones

Prostones are a class of compounds derived from functional fatty acids that occur naturally in the human body. The therapeutic potential of prostones was first identified by Dr. Ueno. Fatty acids serve as fuel for energy production in cells in many organisms and are intermediates in the synthesis of other important chemical compounds. To date, two prostone products have received marketing approval: AMITIZA for the treatment of chronic idiopathic constipation and RESCULA® (unoprostone isopropyl) for the treatment of glaucoma. RESCULA, which was developed by R-Tech under the leadership of Drs. Ueno and Kuno, was the first commercially available prostone drug. RESCULA was first sold in Japan beginning in 1994 and is currently marketed in more than 40 countries worldwide. Although we do not hold any rights to RESCULA, we believe that the successful development of AMITIZA and RESCULA demonstrates the initial therapeutic potential of prostones.

Ion Channel Activation

Based on our preclinical and clinical studies, we believe that most prostones work as selective ion channel activators, which means that they promote the movement of specific ions into or out of cells. Ions are charged particles, such as sodium, potassium, calcium and chloride. The concentration of specific ions within particular types of cells is important to many vital physiological functions in the human body. Because ions cannot move freely across cell membranes, they must enter or exit a cell through protein structures known as ion channels. Ion channels, which are found in every cell in the body, span the cell membrane and regulate the flow of ions into and out of cells by opening and closing in response to particular stimuli. Each kind of ion moves through its own specific ion channel. Some molecular compounds, including some prostones, have been shown to activate or inhibit ion channels, thereby controlling the concentration of specific ions within cells. We believe that these prostones work selectively on specific ion channels and, as a result, can be targeted to induce very specific pharmacological activities without triggering other cellular activity that could lead to undesirable side effects.

In preclinical *in vitro* tests on human cell lines with the three prostones that we are currently developing, AMITIZA, cobiprostone and SPI-017, all three compounds selectively activated a specific ion channel known as the type-2 chloride channel, or ClC-2 channel. The ClC-2 channel is expressed in cells throughout the body and is one of the channels through which chloride ions move into and out of cells. Chloride channels regulate many essential physiological functions within cells, including cell volume, intracellular pH, cellular water and ion balance and regulation of cellular voltage and energy levels. We believe that AMITIZA is the first selective chloride channel activator approved by the FDA for therapeutic use in humans.

Potential Beneficial Effects of Prostones

We believe that the method of action of prostones that serve as selective ion channel activators may result in the following beneficial effects:

- *Enhancement of Fluid Secretion.* Activating the movement of specific ions into and out of cells can promote the secretion of fluid into neighboring areas. For example, AMITIZA promotes fluid secretion into the small intestine by activating the ClC-2 channel in the cells lining the small intestine. Likewise, RESCULA is a potassium channel activator that works to treat glaucoma by increasing aqueous humor outflow in ocular cells in the eyes.
- *Recovery of Barrier Function.* Disruption of the barrier function in human cells can trigger cell damage by increasing the permeability of cells and tissue, thereby diminishing the body's first line of defense. Recently, protein complexes occurring between cells known as "tight junctions" have been found to play a critical role in the regulation of barrier function in the body. The ClC-2 channel plays an important role in the restoration of these tight junction complexes and in the recovery of barrier function in the body. In preclinical studies, AMITIZA appeared to accelerate the recovery of the disrupted barrier function through the restoration of the tight junction structure. We believe that this may be a result of AMITIZA's specific effects on the ClC-2 channel. We believe that other prostones that act as ClC-2 channel activators may have a similar barrier recovery function.
- *Localized Activity.* Because most prostones act through contact with cells, their pharmacological activity is localized in those areas where the compound is physically present in its active form. Because some prostones metabolize relatively quickly to an inactive form, we believe their pharmacological effects are not spread to other parts of the body. These properties allow some prostones to be targeted to specific types of cells in specific organs through different routes of administration. For example, when AMITIZA is taken orally, it arrives in the small intestine and liver while it is still active and begins to act on the cells lining those organs. By the time it is passed through to the large intestine, it appears to have been largely metabolized and is no longer active. Similarly, we believe that inhaled formulations of some prostones would act principally in the lungs and that intravenous formulations would act principally in the vascular system, in each case without having systemic effects.

Our Strategy

Our goal is to become a leading specialty biopharmaceutical company focused on discovering, developing and commercializing proprietary drugs based on prostones to treat diseases and disorders for which there are unmet or underserved medical needs and significant commercial potential. Our strategy to achieve this objective includes the following key elements:

Focus on commercial sales of AMITIZA in the United States for the treatment of chronic idiopathic constipation in adults. We initiated commercial sales of AMITIZA in the United States for the treatment of chronic idiopathic constipation in collaboration with Takeda in April 2006. Takeda is marketing AMITIZA broadly to office-based specialty physicians and primary care physicians. Pursuant to the terms of our collaboration and license agreement with Takeda, Takeda is obligated to provide a dedicated sales force of at least 200 people to promote AMITIZA and a supplemental sales force of at least 500 people to promote AMITIZA together with one other drug product, although Takeda has advised us that their total sales force promoting AMITIZA consists of approximately 950 people. We are complementing Takeda's marketing efforts by promoting AMITIZA in the institutional marketplace through a specialty sales force consisting of 38 field sales representatives. This institutional market is characterized by a concentration of elderly patients, who we believe will be a key market for AMITIZA to treat gastrointestinal indications, and by physicians who are key opinion leaders in the gastrointestinal field. In connection with the commercial launch of AMITIZA, we have recruited experienced internal sales and marketing leadership and developed a marketing strategy and promotional materials for the commercialization of AMITIZA in our targeted institutional market.

Develop AMITIZA for the treatment of additional indications and discover, develop and commercialize other prostone product candidates. We are concentrating our development efforts on expanding the approved indications for AMITIZA and developing our product candidates cobiprostone and SPI-017. We hold an exclusive worldwide royalty-bearing license from Sucampo AG to develop and commercialize each of these prostone compounds. In the future, we also expect to develop other proprietary prostones. We believe that our focus on prostones may offer several potential advantages, including:

- *Novel mechanisms of action.* We believe that AMITIZA, cobiprostone and SPI-017 have, and that additional product candidates that we may develop in the future based on prostones may have, novel mechanisms of action, such as selective ClC-2 chloride channel activation, that offer physicians a new approach to treat targeted indications.
- *Wide-ranging therapeutic potential of prostones.* We believe that many prostones promote fluid secretion, enhance cell barrier protection and can be developed to target particular organs or systems of the body. As a result, we believe that we will be able to develop prostone drugs to treat multiple diseases and disorders of the gastrointestinal, respiratory, vascular and central nervous systems.
- *Our discovery and development experience with prostones.* We expect that our considerable experience with AMITIZA, as well as the knowledge gained by Drs. Ueno and Kuno in the development of RESCULA, will facilitate our discovery and clinical development of additional prostone compounds.
- *Patent protection.* AMITIZA, cobiprostone and SPI-017 each are covered by composition-of-matter, method of use and other issued patents or patent applications in the United States, Europe and Japan.

Target large and underserved markets, with a particular focus on treating indications in the elderly population. We believe that drugs based on prostones may be able to address a variety of large markets characterized either by treatments with limited effectiveness or, in some cases, no treatment. In addition to AMITIZA for the treatment of chronic idiopathic constipation in adults, the indication for which it has been approved by the FDA, we are targeting:

- AMITIZA for the treatment of chronic idiopathic constipation in pediatric patients and for the treatment of irritable bowel syndrome with constipation and opioid-induced bowel dysfunction;
- Cobiprostone for the treatment of NSAID-induced ulcers, portal hypertension, non-alcoholic fatty liver disease, disorders associated with cystic fibrosis and chronic obstructive pulmonary disease; and

- SPI-017 for the treatment of peripheral arterial disease, stroke and Alzheimer's disease.

Seek marketing approval for AMITIZA and our other product candidates outside the United States. We plan to pursue marketing approval for AMITIZA and our other product candidates in markets outside the United States, including Europe, the Asia Pacific region and Latin America. To the extent possible, we intend to use the data from our U.S. clinical trials and the experience gained from the U.S. approval process to expedite the approval process in other countries. If we receive marketing approval for our products outside the United States, we plan to retain co-commercialization rights and work with third-party pharmaceutical companies with marketing, sales and distribution capabilities in the relevant regions to commercialize these products. In February 2008, we filed a MAA for lubiprostone, 24 micrograms, for the indication of chronic idiopathic constipation in adults in the United Kingdom. This application was filed using the decentralized procedure, with the United Kingdom, through its Medicines and Healthcare Products Regulatory Agency, serving as the reference member state, with additional applications subsequently filed with the member states of Belgium, Denmark, France, Germany, Ireland, the Netherlands, Spain and Sweden.

Focus on our core discovery and clinical development and commercialization activities. Our business model is to devote our resources and efforts to discovering, developing and commercializing product candidates based on prostones, while outsourcing other, non-core business functions to third parties. Following this approach, we selectively collaborate with a number of third parties to assist us with these non-core business functions. These collaborators include:

- Our affiliate R-Tech, which manufacturers commercial and clinical supplies of AMITIZA and other prostone compounds for us;
- Takeda, with whom we are collaborating to market AMITIZA for the treatment of chronic idiopathic constipation in adults and other gastrointestinal indications in the United States and Canada; and
- Contract research organizations, which we engage to perform preclinical and clinical trials of our product candidates.

We believe that applying our resources in this way allows us to concentrate on our core strengths while benefiting from the specialized expertise of our third-party collaborators. In addition, we may decide to outsource clinical development activities for some of the compounds and indications in our product pipeline if we determine it would be more cost-effective to do so. For example, we may conclude that it is more economical to license cobiprostone for pulmonary indications, such as respiratory symptoms of cystic fibrosis and chronic obstructive pulmonary disease, to a third party who would conduct the necessary clinical development activities in support of those indications.

Grow through strategic acquisitions and in-licensing opportunities. We intend to pursue strategic acquisitions and in-licensing opportunities to complement our existing product pipeline. We have a specialty sales and marketing function focused on the institutional market and we have significant experience in pharmaceutical research and product development, including clinical trials and regulatory affairs. We believe that the institutional focus of our specialty sales force would facilitate our ability to sell additional products targeted at a variety of indications in several therapeutic fields that are concentrated in the institutional setting. This institutional market is characterized by a concentration of elderly patients. We believe that these capabilities will help us to identify attractive acquisition, in-licensing and co-promotion opportunities to build upon our core clinical development and commercialization capabilities.

Products and Product Candidates

AMITIZA® (lubiprostone)

Overview

We are developing AMITIZA for the treatment of multiple constipation-related gastrointestinal disorders. AMITIZA functions as a selective activator of the ClC-2 chloride channel through which negatively charged chloride ions flow out of the cells lining the small intestine and into the intestinal cavity. As these negatively charged chloride ions enter the intestine, positively charged sodium ions move through spaces between the cells into the

intestine to balance the negative charge of the chloride ions. As these sodium ions move into the intestine, water is also allowed to pass into the intestine through these spaces between the cells. We believe that this movement of water into the small intestine promotes increased fluid content, which in turn softens the stool and facilitates its movement, or motility, through the intestine.

Chronic Idiopathic Constipation

On January 31, 2006, after a 10-month review, the FDA approved our NDA for AMITIZA for the treatment of chronic idiopathic constipation in adults of both genders and all ages, including those over 65 years of age, without restriction as to duration of use. In collaboration with Takeda, we initiated commercial sales of AMITIZA in the United States for the treatment of chronic idiopathic constipation in April 2006. When used for this indication, AMITIZA gelatin capsules are taken orally twice daily in doses of 24 micrograms each.

Disease Overview. Constipation is characterized by infrequent and difficult passage of stool and becomes chronic when a patient suffers specified symptoms for over 12 non-consecutive weeks within a 12-month period. Chronic constipation is idiopathic if it is not caused by other diseases or by use of medications. Symptoms of chronic idiopathic constipation include straining, hard stools, bloating and abdominal pain or discomfort. Factors contributing to the development of chronic idiopathic constipation include a diet low in soluble and insoluble fiber, inadequate exercise, bowel disorders and poor abdominal pressure and muscular weakness.

Current Treatment. Some patients suffering from chronic idiopathic constipation can be successfully treated with lifestyle modification, dietary changes and increased fluid and fiber intake, and these treatments are generally tried first. For patients who fail to respond to these approaches, physicians typically recommend laxatives, most of which are available over-the-counter. The most commonly used laxatives can be categorized as stimulants, stool softeners, bulk-forming agents, osmotics or lubricants. Though somewhat effective in treating chronic idiopathic constipation, stimulants and stool softeners can be habit forming, while bulk-forming agents are often ineffective in patients with moderate-to-severe constipation. Osmotics, such as MiraLax™ (polyethylene glycol 3350) and lactulose are labeled for use only for treating occasional constipation, not chronic idiopathic constipation, and they may cause fluid and electrolyte imbalance, which, if left untreated, can impair normal function of the nerves and muscles. MiraLax was recently approved for sale as an over-the-counter treatment. In addition, lubricants, such as orally administered mineral oil, can be inconvenient and unpleasant for patients to ingest. For those patients who fail to respond to laxatives, Zelnorm® (tegaserod maleate), a partial serotonin-receptor agonist, was often prescribed. In March 2007, at the request of the FDA, Zelnorm was withdrawn from the U.S. market by Novartis Pharmaceuticals Corporation, or Novartis. The FDA requested that Novartis discontinue marketing Zelnorm based on an identified finding of an increased risk of serious cardiovascular adverse events associated with use of the drug. Following a public advisory committee meeting, the FDA announced in July 2007 that it is permitting the restricted use of Zelnorm under a treatment IND protocol for patients whose physicians determine the drug is medically necessary. Even before its withdrawal, however, Zelnorm was not approved for administration to patients over 65 years of age and has been linked with incidents of ischemic colitis, a life-threatening inflammation of the large intestine caused by restricted blood flow, and other forms of intestinal ischemia. In addition, the effectiveness of Zelnorm for the treatment of chronic idiopathic constipation has not been studied beyond 12 weeks.

Market Opportunity. Studies published in *The American Journal of Gastroenterology* estimate that approximately 42 million people in the United States suffer from constipation. Based on these studies, we estimate that approximately 12 million people can be characterized as suffering from chronic idiopathic constipation. In an additional study published in *The American Journal of Gastroenterology*, 91% of physicians expressed a desire for better treatment options for constipation.

We believe that AMITIZA has a number of advantages over existing treatment options that could help it capture a significant portion of, and potentially expand, the existing market for chronic idiopathic constipation therapies. These advantages include the following:

- AMITIZA has been approved for administration to adults of all ages, including those over 65 years of age;
- AMITIZA has been approved without limitation on duration of use; and

- AMITIZA has not been associated with the serious side effects observed with some other treatment options, such as ischemic colitis, electrolyte imbalance and cardiovascular ischemic events.

Clinical Trial Results. In connection with obtaining FDA marketing approval of AMITIZA, we conducted a comprehensive program of clinical trials of this drug for use in treating chronic idiopathic constipation. This clinical program included two Phase III pivotal trials and three long-term safety and efficacy trials.

Efficacy Results in Two Pivotal Clinical Trials. In August 2002 and September 2003, we completed two multi-center, double-blind, randomized, placebo-controlled, four-week, Phase III clinical trials of substantially identical design to assess the safety and efficacy of AMITIZA for the treatment of chronic idiopathic constipation. In each of these trials, we enrolled approximately 240 participants aged 18 or older with a history of chronic idiopathic constipation. The primary efficacy endpoint in these trials was the frequency of spontaneous bowel movements during the first week of treatment. Secondary efficacy endpoints included the frequency of spontaneous bowel movements during the second, third and fourth weeks of treatment, the percentage of participants with a spontaneous bowel movement within 24 hours after administration, the time to first spontaneous bowel movement and weekly subjective assessments by participants of average stool consistency, degree of straining, severity of constipation, overall treatment effectiveness and prevalence of other related symptoms, such as bloating and discomfort.

In these trials, AMITIZA met its primary efficacy endpoint with statistical significance, increasing the frequency of spontaneous bowel movements from baseline during the first week of treatment by 75% in one pivotal trial and 78% in the second pivotal trial, in each case with a p-value less than 0.0001. In addition, on the basis of combined data from both pivotal trials, AMITIZA met all but one of the secondary efficacy endpoints with statistical significance for all treatment weeks. That one secondary efficacy endpoint, abdominal discomfort, showed statistically significant improvements only during the last two weeks of treatment with AMITIZA compared to placebo. The results of these trials were consistent in subpopulation analyses for gender, race and patients 65 years of age or older. We determined statistical significance based on a widely used, conventional statistical method that establishes the p-value of clinical results. Under this method, a p-value of 0.05 or less represents statistical significance, meaning that there is a less than one-in-twenty likelihood that the observed results occurred by chance.

Efficacy Results in Long-term Safety Trials. Between November 2001 and January 2005, we conducted three multi-center, open-label, long-term clinical safety and efficacy trials of AMITIZA in patients with a history of chronic idiopathic constipation. The trials consisted of one six-month trial and two twelve-month trials and enrolled a total of 881 patients age 18 or older. The primary objective of these trials was to demonstrate the safety of AMITIZA when administered to participants in twice-daily doses of 24 micrograms each. A secondary objective was to provide further evidence of the long-term efficacy of AMITIZA in treating the symptoms of chronic idiopathic constipation. In these trials, AMITIZA produced statistically significant improvements from baseline in subjective assessments of constipation severity, abdominal bloating and abdominal discomfort over both the six-month and the twelve-month treatment periods with a p-value less than or equal to 0.0001. Subjective assessment of constipation severity was improved by an average of 1.47 points on a five-point scale in the six-month trial and 1.38 points in the twelve-month trial; subjective assessment of abdominal bloating was improved by an average of 0.98 points in the six-month trial and 1.00 points in the twelve-month trial; and subjective assessment of abdominal discomfort was improved by an average of 0.91 points in the six-week trial and 0.87 points in the twelve-month trial.

Safety Profile and Withdrawal Effects. AMITIZA was well tolerated in twice-daily doses of 24 micrograms each in an earlier Phase II trial, the two Phase III pivotal trials and the three long-term clinical safety and efficacy trials. These trials revealed no apparent increased risk of serious adverse events as a result of treatment with AMITIZA. The most common adverse events reported by participants in these six trials were nausea, which was reported by 31% of all trial participants, and diarrhea and headache, which were each reported by 13% of all trial participants. The incidence of nausea was lower among participants 65 years of age or older, with only 18.6% of those participants reporting this side effect. In addition, because AMITIZA demonstrated a potential to cause fetal loss in guinea pigs in preclinical studies, its label provides that it should be used during pregnancy only if the potential benefit justifies the potential risk to the fetus. The label further states that women who could become

pregnant should have a negative pregnancy test prior to beginning therapy with the drug and should be capable of complying with effective contraceptive measures.

Post-marketing Studies. 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 the studies in January 2007.

Japanese Studies. In November 2007, we commenced a multi-center Phase IIb does-ranging study in Japan to evaluate the safety and efficacy of lubiprostone for chronic idiopathic constipation in adults. This randomized, parallel group, double-blind, placebo-controlled study will compare the dose response of oral lubiprostone with that of placebo in Japanese patients diagnosed with chronic idiopathic constipation. Approximately 160 patients are expected to be enrolled at 13 sites. Patients are being randomized to one of three twice-daily doses of lubiprostone (8, 16 or 24 micrograms) or placebo. The primary endpoint of the study is the number of spontaneous bowel movements after one week on treatment.

Irritable Bowel Syndrome with Constipation

On June 29, 2007 we submitted a supplemental NDA, or sNDA, to our existing NDA for AMITIZA. The sNDA is for the addition of irritable bowel syndrome with constipation as a new indication using a twice daily 8 microgram dose. We expect a PDUFA action for our sNDA on or about April 29, 2008.

Disease Overview. Irritable bowel syndrome is a disorder of the intestines with symptoms that include severe cramping, pain, bloating and extreme changes of bowel habits, such as diarrhea or constipation. Patients diagnosed with irritable bowel syndrome are commonly classified as having one of three forms: irritable bowel syndrome with constipation, irritable bowel syndrome with diarrhea, or mixed-pattern irritable bowel syndrome alternating between constipation and diarrhea. Currently, irritable bowel syndrome in all its forms is considered to be one of the most common gastrointestinal disorders.

Current Treatment. Most treatment options for irritable bowel syndrome with constipation focus on separately addressing symptoms, such as pain or infrequent bowel movements. Some patients suffering from irritable bowel syndrome with constipation can be successfully treated with dietary measures, such as increasing fiber and fluid intake, and these treatments are generally tried first. If these measures prove ineffective, laxatives are frequently used for the management of this condition. Zelnorm is currently the only FDA-approved drug indicated for the treatment of irritable bowel syndrome with constipation, although its label limits its indication to short-term treatment of women. In March 2007, however, at the request of the FDA, Zelnorm was withdrawn from the U.S. market by Novartis. The FDA requested that Novartis discontinue marketing Zelnorm based on a finding of an increased risk of serious cardiovascular adverse events associated with use of the drug. Following a public advisory committee meeting, the FDA announced that is it permitting the restricted use of Zelnorm under a treatment IND protocol for patients whose physicians determine the drug is medically necessary. Zelnorm remains off the market for general use. In December 2005, the European Medicines Agency refused marketing approval for Zelnorm for the treatment of irritable bowel syndrome with constipation in women, citing the inconclusiveness of clinical studies in demonstrating its effectiveness. In March 2006, the Agency denied an appeal of that decision.

Market Opportunity. According to the American College of Gastroenterology, irritable bowel syndrome affects approximately 58 million people in the United States, and irritable bowel syndrome with constipation accounts for approximately one-third of these cases.

Development Status. In June 2004, we completed a multi-center, double-blind, randomized, placebo-controlled, dose-response, 12-week Phase II clinical trial to assess the safety and efficacy of AMITIZA for the treatment of irritable bowel syndrome with constipation in daily doses of 16, 32 and 48 micrograms. In this trial, we enrolled approximately 200 participants meeting the International Congress of Gastroenterology's working criteria for the diagnosis of irritable bowel syndrome with constipation, referred to as the Rome II criteria. The objective of this trial was to evaluate the safety and efficacy of multiple dose levels of AMITIZA in this patient population in order to select the appropriate dose for Phase III pivotal studies.

The primary efficacy endpoint for this trial was a subjective assessment of changes in abdominal discomfort and pain during the first month of treatment. Secondary efficacy endpoints included subjective assessments of changes in abdominal discomfort and pain during the second and third months of treatment, frequency of spontaneous bowel movements, subjective assessments of average stool consistency, degree of straining, abdominal bloating, severity of constipation and overall treatment effectiveness and subjective assessment of quality of life.

In this trial, AMITIZA demonstrated a statistically significant, dose-dependent trend in improvement in mean change from baseline abdominal discomfort and pain during the first month of treatment with a p-value of 0.0431. The term mean change from baseline refers to differences in patients' condition after treatment with the drug or the placebo compared to their condition before treatment. This dose-dependent trend in improvement in mean change from baseline also was statistically significant during the second month of treatment with a p-value of 0.0336. During the third month of treatment, the trend in favor of AMITIZA continued, but was not statistically significant. Several secondary efficacy endpoints, including frequency of spontaneous bowel movements, subjective assessments of average stool consistency, degree of straining, abdominal bloating and severity of constipation, also showed overall dose-dependent trends that were statistically significant for at least two of the three months of treatment.

Although AMITIZA was effective and well tolerated at all doses in this trial, the 16 microgram daily dose produced the best overall balance of safety and efficacy, with participants in the 32 and 48 microgram treatment groups generally more likely to discontinue treatment due to adverse events. Adverse events appeared to be dose-dependent between the 16 and 48 microgram AMITIZA treatment groups and occurred more frequently in the AMITIZA treatment group than in the placebo treatment group.

Based on the results of this Phase II trial, we initiated two pivotal Phase III clinical trials of AMITIZA in men and women for irritable bowel syndrome with constipation in May 2005, each involving 570 or more participants meeting the Rome II criteria for irritable bowel syndrome with constipation at 65 investigative study sites in the United States. These Phase III pivotal trials were designed as double-blind, randomized, 12-week clinical trials to demonstrate the efficacy and safety of AMITIZA for the treatment of symptoms of irritable bowel syndrome with constipation using twice daily doses of 8 micrograms each, or 16 micrograms total. The primary efficacy endpoint for these trials was a subjective assessment of the participant's overall relief from the symptoms of irritable bowel syndrome with constipation determined by the question "How would you rate your relief of irritable bowel syndrome symptoms (abdominal discomfort/pain, bowel habits, and other irritable bowel syndrome symptoms) over the past week compared to how you felt before you entered the study?" Patient responses were recorded using a seven-point balanced scale. Treatment responders were defined in each month as those reporting at least "significantly relieved", which was the highest scale category, for two out of four weeks or "moderately relieved", the second highest category, for four out of four weeks. To qualify as an overall treatment responder, and count toward the primary efficacy endpoint, patients had to be a monthly treatment responder for at least two out of three months. The secondary efficacy endpoints were similar to those for our Phase II clinical trials of AMITIZA for this indication and involved subjective assessments of such factors as abdominal discomfort and pain, bloating, straining, stool consistency, severity of constipation and quality of life components. The first of the two pivotal studies was followed by a randomized withdrawal period to assess the effects, if any, associated with withdrawal of AMITIZA over a four-week period. We also initiated an additional follow-on open-label safety and efficacy study to assess the long-term use of AMITIZA as a treatment for this indication. This study included 476 patients who were treated for an additional 36 weeks following the initial 12 or 16 week treatment period.

In the two pivotal phase III trials, participants receiving AMITIZA at a dose of 8 micrograms twice daily were more likely to achieve overall relief from symptoms compared to those receiving the placebo, with 17.9% of the AMITIZA group achieving overall relief compared to 10.1% for the placebo group, with a p-value of 0.001. In both trials individually, participants receiving AMITIZA experienced overall relief from symptoms at higher rates than those receiving the placebo, 18.2% compared to 9.8% with a p-value of 0.009 in one trial and 17.7% compared to 10.4% with a p-value of 0.031 in the other.

In the combined phase III trials, the secondary endpoints, which were measured on a five-point scale, were improved with statistical significance in participants receiving AMITIZA compared to those receiving the placebo. At the end of the three-month treatment period, subjective assessments of abdominal discomfort and pain by

participants receiving AMITIZA improved from baseline by an average of 0.45 points, compared to average improvements in participants receiving the placebo of 0.35 points; subjective assessments of stool consistency improved by an average of 0.51 points compared to 0.38 points; subjective assessments of straining improved by an average of 0.60 points compared to 0.47 points; subjective assessments of constipation severity improved by an average of 0.52 points compared to 0.40 points; and subjective assessments of abdominal bloating improved by an average of 0.45 points compared to 0.36 points. At the end of the three-month treatment period, the overall composite score for subjective assessments of quality of life improved from baseline an average of 17.1 points on a 100-point scale for participants receiving AMITIZA compared to an average improvement of 14.4 points for those receiving the placebo. Statistical significance was seen for each of these secondary endpoints, with the subjective assessments of abdominal discomfort and pain having a p-value of 0.013, stool consistency having a p-value of 0.006, straining having a p-value of 0.020, constipation severity having a p-value of 0.005, abdominal bloating having a p-value of 0.024 and quality of life having a p-value of 0.021.

The first of the two phase III trials also assessed the rebound effect from the withdrawal of AMITIZA following 12 weeks of treatment with an 8 microgram dose twice daily. In this trial, withdrawal of AMITIZA did not result in a rebound effect. AMITIZA was well-tolerated in the phase II, phase III, and long-term safety studies. In the combined phase II and phase III studies and at the recommended dose, there was a similar incidence of serious adverse events, 1% in both the AMITIZA group and the placebo group, and treatment-related adverse events, with 26% in the AMITIZA groups compared to 21% in the placebo groups. The most common treatment-related adverse events were nausea, which was reported by 8% of participants receiving AMITIZA and 4% of those receiving the placebo, and diarrhea, which was reported by 7% of the AMITIZA groups and 4% of the placebo groups. Abdominal pain occurred at a similar rate in the placebo groups and the AMITIZA groups, with 5% reporting this adverse event.

Opioid-Induced Bowel Dysfunction

We commenced Phase III pivotal clinical trials of orally administered AMITIZA gelatin capsules for the treatment of opioid-induced bowel dysfunction in September 2007.

Disease Overview. Opioid-induced bowel dysfunction comprises a variety of gastrointestinal side effects stemming from the use of narcotic medications such as morphine and codeine, which are referred to as opioids. Physicians prescribe opioids for patients with advanced medical illnesses, such as cancer and AIDS, patients undergoing surgery and patients who experience chronic pain. Despite their pain-relieving effectiveness, opioids are known to produce gastrointestinal effects that lead to opioid-induced constipation, including inhibition of large intestine motility, decreased gastric emptying and hard stools.

Current Treatment. There are currently no FDA-approved products that are specifically indicated for treatment of opioid-induced bowel dysfunction. Current treatment options for opioid-induced bowel dysfunction include the use of stool softeners, enemas, suppositories and peristaltic stimulants such as senna, which stimulate muscle contractions in the bowel. The effectiveness of these products for the treatment of opioid-induced bowel dysfunction is limited due to the severity of the constipation caused by opioids. In addition, physicians often cannot prescribe peristaltic stimulants for the duration of narcotic treatment because of the potential for dependence upon these stimulants. As a result, patients frequently must discontinue opioid therapy and endure pain in order to obtain relief from opioid-induced bowel dysfunction.

Market Opportunity. According to the American Pain Foundation, over 50 million Americans suffer from chronic pain, and nearly 25 million Americans experience acute pain each year due to injuries or surgery. Opioid pain relievers are widely prescribed for these patients, many of whom also develop opioid-induced bowel dysfunction. We believe over three million people in the United States currently suffer from opioid-induced bowel dysfunction.

Opioid drugs are known to increase absorption of electrolytes, including chloride, in the small intestine, contributing to the constipating effects of these analgesics. We believe that AMITIZA, as a chloride channel activator, may directly counteract this side effect without interfering with the analgesic benefits of opioids. As a result, we believe that AMITIZA, if approved for the treatment of opioid-induced bowel dysfunction, could hold a competitive advantage over drugs that do not work through this mechanism of action.

Development Status. We have completed preclinical studies of AMITIZA as a potential therapy for opioid-induced bowel dysfunction in a model of morphine-induced constipation in mice. In these studies, AMITIZA was shown to improve intestinal transit time and did not result in any reduction of the analgesic effect of morphine. Based on these preclinical results, we determined to pursue development of AMITIZA as a treatment for opioid-induced bowel dysfunction.

Cobiprostone

Overview

We are developing the prostone compound cobiprostone for oral administration to treat various gastrointestinal and liver disorders, including NSAID-induced ulcers, non-alcoholic fatty liver disease, portal hypertension and gastrointestinal disorders associated with cystic fibrosis. We also plan to develop an inhaled formulation of cobiprostone for the treatment of respiratory symptoms of cystic fibrosis and chronic obstructive pulmonary disease. We believe that cobiprostone, like AMITIZA, is an activator of the chloride ion channel ClC-2, which is known to be present in gastrointestinal, liver and lung cells.

We completed two Phase I clinical trials of cobiprostone in healthy volunteers in Japan in 1997. In these trials, orally administered cobiprostone was generally well tolerated both when it was administered three times daily for a period of seven days at doses we expect to be clinically relevant and when it was administered in single doses that were significantly higher than those we expect to be clinically relevant. Several incidents of loose or watery stools were reported, but at doses higher than those we expect to use in planned additional clinical trials. No serious adverse events were experienced by any participants in these trials, and no participants withdrew from these trials due to adverse events, even at dose levels several times higher than what we expect to be clinically-relevant doses of cobiprostone.

Non-Steroidal Anti-Inflammatory Drug-Induced Ulcers

We commenced a Phase II clinical trial of cobiprostone for the prevention and treatment of NSAID-induced ulcers in September 2007.

Disease Overview. NSAIDs, such as aspirin and ibuprofen, are among the most commonly prescribed drugs worldwide. They are used to treat common medical conditions, such as arthritis, headaches and fever. In addition, with the recent withdrawal from the marketplace of the COX-2 inhibitors Vioxx® (rofecoxib) and Bextra® (valdecoxib), which were widely prescribed for arthritis patients, an increased number of these patients are returning to NSAID therapy. However, gastrointestinal symptoms, such as gastric, or stomach, ulcers and bleeding, are major limiting side effects of long-term NSAID use.

Current Treatment. Current treatment options for NSAID-induced ulcers include products designed to prevent the formation of gastric ulcers during NSAID use and products that help to repair the damage of ulcers after they have developed. Cytotec® (misoprostol) is currently the only FDA approved product for the prevention of NSAID-induced gastric ulcers. It is sometimes marketed as a combination product with NSAIDs under the brand name Arthrotec®. However, Cytotec has been associated with severe diarrhea, particularly in higher doses, and its label restricts its use in women of childbearing potential, except in very limited circumstances, because it can cause abortion, premature birth and birth defects.

After NSAID-induced ulcers have developed, proton pump inhibitors, such as Nexium® (esomeprazole magnesium) and Prevacid® (lansoprazole), are prescribed to treat most gastric ulcer patients, either alone or in combination with other treatments. H2 blockers, such as Pepcid® (famotidine), Tagamet® (cimetidine) and Zantac® (ranitidine hydrochloride), help to reduce stomach acid and are typically prescribed as a second line of therapy for gastric ulcers, when proton pump inhibitors are not effective, or are used in conjunction with proton pump inhibitors. Although both proton pump inhibitors and H2 blockers can aid in the repair of existing gastric ulcers, neither of these drug categories has been shown to be effective in preventing ulcer development. Furthermore the therapeutic effects of these products are only observed at high doses and in some types of at-risk patients, such as those with a prior history of ulcers or those 65 years of age or older.

Market Opportunity. According to a study published in *Postgraduate Medicine*, approximately 13 million patients in the United States are regular users of NSAIDs. According to the American Chronic Pain Association, as many as 20% of patients who take NSAIDs daily may develop gastric ulcers. We believe that many patients treated with NSAIDs are not prescribed preventative treatment for gastric ulcers due to a combination of high cost, side effects and lack of a well established standard of care. We believe that these factors also limit the use of prescription products for the repair of gastric ulcers after they have developed. Based on cobiprostone's novel mechanism of action and protective activity in animal models, we believe that it may be effective at both preventing and treating NSAID-induced ulcers, but without the safety concerns and restrictions on use associated with existing treatment options.

Development Status. We have completed preclinical studies of cobiprostone as a potential therapy for NSAID-induced ulcers. In preclinical tests in rats, cobiprostone protected against formation of ulcers induced by indomethacin, an NSAID, and ulcers induced by stress and demonstrated an acceptable safety profile at what we believe are clinically relevant doses. In the third quarter of 2007, we commenced a Phase II clinical trial for cobiprostone. This Phase II trial is a multi-center, randomized, placebo-controlled study to evaluate the effects of multiple doses of cobiprostone for the treatment and prevention of ulcer formation following treatment with NSAIDs. We believe that cobiprostone may have utility in preventing other gastric injury in addition to NSAID-induced ulcers. Accordingly, as we progress through our clinical program for cobiprostone, we may seek to broaden our indication for this compound by exploring other gastrointestinal lesions, including hemorrhages, erosions and ulcerations.

Other Potential Indications

Portal Hypertension. Portal hypertension is the build-up of pressure in the portal vein connecting the intestines and the liver and is caused by a narrowing of the blood vessel as a result of liver cirrhosis. Increased pressure in the portal vein can lead to the development of large, swollen veins in the esophagus, stomach and rectum which, if ruptured, can result in potentially life-threatening blood loss. According to a physician survey conducted by MEDACorp, an independent strategic consulting firm focused on the health care sector, approximately 4.0 million Americans suffer from liver cirrhosis, with approximately 1.5 million of those individuals also diagnosed with portal hypertension. Beta-adrenergic receptor blocking agents, or beta blockers, such as propranolol are the most common treatment for portal hypertension. Beta blockers help to relieve the effects of portal hypertension by lowering blood pressure throughout the body. However, these products are associated with increased risk of stroke and a number of other side effects, including, nausea, diarrhea, hypotension, heart failure, dizziness, fatigue, insomnia and depression, which may limit their use, particularly among elderly patients. In contrast to beta blockers, we believe that cobiprostone may be effective at reducing portal hypertension without exhibiting many of the serious side effects associated with beta blockers.

In preclinical tests, cobiprostone:

- decreased portal pressure in two rodent models of portal hypertension disease;
- increased cutaneous blood flow in two additional animal models in the presence of chemical agents known to constrict the peripheral vasculature; and
- reduced vascular resistance in the liver induced by a chemical agent in an isolated rat model.

We also submitted an IND to the FDA in December 2007 for a Phase II proof-of-concept study of cobiprostone in patients with portal hypertension.

Non-Alcoholic Fatty Liver Disease. Non-alcoholic fatty liver disease is characterized by elevations of specific liver enzymes in the absence of excessive alcohol intake or other chronic liver diseases. Although all levels of non-alcoholic fatty liver disease lead to fat accumulation in the liver, the more advanced versions of this disease, known as Type 3 and Type 4 non-alcoholic fatty liver disease, also involve fibrosis and greatly increase the risk of progressive liver disease, cirrhosis and liver-related death. There is currently no treatment available for non-alcoholic fatty liver disease and the market size is unknown. According to the National Institute of Diabetes and Digestive and Kidney Diseases, a division of the National Institutes of Health, approximately 10% to 20% of

Americans are affected by fat in the liver, and this condition is becoming more common, possibly due to the greater number of Americans with obesity.

In preclinical studies of cobiprostone as a potential treatment for non-alcoholic fatty liver disease in rodent models of liver damage, cobiprostone was found to favorably alter various serum indicators of liver function and to reduce the severity of liver injury caused by hepatitis.

In June 2003, we completed a limited, 28-day Phase II trial to assess the safety and efficacy of orally administered cobiprostone for the treatment of non-alcoholic fatty liver disease. The efficacy results of this trial were inconclusive, which we believe was likely the result of the trial's short treatment period and the fact that all but one of the participants in this trial suffered from Type 4 non-alcoholic fatty liver disease, the most severe form of the disease. Although we believe that further investigation of the role of cobiprostone in the prevention or delay of non-alcoholic fatty liver disease progression is warranted, current techniques for studying this condition require a biopsy of the liver. As a result, we do not plan to pursue human clinical trials of cobiprostone for the treatment of non-alcoholic fatty liver disease until such time as less invasive methods or alternative diagnostic endpoints are developed for diagnosing the disease and evaluating its progress.

Cystic Fibrosis. Cystic fibrosis is a congenital disease that usually develops during childhood and causes pancreatic insufficiency and pulmonary disorder. The gene product responsible for cystic fibrosis is a protein called the cystic fibrosis transmembrane conductance regulator, or CFTR. CFTR is found in cells lining the internal surfaces of the lungs, salivary glands, pancreas, sweat glands, intestine and reproductive organs and acts as a channel transporting chloride ions out of the cell. Cystic fibrosis is caused by a defect in the CFTR protein, which prevents the transport of chloride ions between cells, causing the body to develop thick, sticky mucus in the lungs, pancreas and liver. According to the Cystic Fibrosis Foundation, cystic fibrosis currently affects approximately 30,000 people in the United States and is usually diagnosed in infants and children.

In preclinical *in vitro* tests on human cell lines, cobiprostone acted as an ion transport modulator, facilitating transport of chloride ions across cell membranes through the ClC-2 chloride channel, a transport process different from that which is defective in cystic fibrosis patients. We believe that the ability of cobiprostone to activate chloride transport using an alternate chloride channel could potentially reverse the effects caused by the defective CFTR, reducing mucus viscosity and allowing increased clearance of mucus in the lungs, pancreas and liver.

In 2003, we conducted an open-label, dose-escalating Phase II trial of orally administered cobiprostone in 24 participants with documented cystic fibrosis. These participants were assigned to one of three dose cohorts at four sites in the United States and treated with cobiprostone for seven days. cobiprostone was generally well tolerated by trial participants, although one participant experienced a serious adverse event and was hospitalized for exacerbation, or short-term worsening, of the disease, possibly as a result of treatment with cobiprostone. Although this trial focused primarily on safety, we also examined the effect of cobiprostone on chloride secretion in cells lining the nose and salivary glands as well as overall quality of life as measured by a questionnaire published by the Cystic Fibrosis Foundation. The results for chloride secretion were inconclusive, which we believe was likely due to the rapid metabolization of the drug in the gastrointestinal tract, the short duration of the trial and the limited number of participants enrolled in the trial. However, we did observe improvements in baseline gastrointestinal disorders associated with cystic fibrosis as measured by the questionnaire. As a result, we have determined to focus our initial development efforts on the treatment of gastrointestinal disorders associated with cystic fibrosis and plan to commence a Phase II dose-ranging trial of orally administered cobiprostone for the treatment of these disorders by 2009. In the future, we also plan to develop an inhaled formulation of cobiprostone for the treatment of respiratory symptoms of cystic fibrosis.

Chronic Obstructive Pulmonary Disease. Chronic obstructive pulmonary disease is characterized by the progressive development of airflow limitation in the lungs that is not fully reversible and encompasses chronic bronchitis and emphysema. According to the National Heart, Lung and Blood Institute, or the NHLBI, a division of the National Institutes of Health, approximately 12 million adults 25 years of age or older in the United States are diagnosed with chronic obstructive pulmonary disease. The NHLBI further estimates that approximately 24 million adults in the United States have evidence of impaired lung function, indicating in their view that this disease is underdiagnosed. Anticholinergics, smooth muscle relaxers that can help to widen air passageways to the lungs, have been the primary therapy to treat chronic obstructive pulmonary disease. Recently, combination agents, such as

steroid/Beta-2 agonists, have enjoyed increased use as chronic obstructive pulmonary disease treatments. However, these treatments relieve only the symptoms of chronic obstructive pulmonary disease, such as chronic cough or shortness of breath, and have limited effect on reducing the incidence of exacerbation of the disease.

Because we believe that the method of action of cobiprostone involves a barrier protection function resulting from chloride channel activation, we believe that it may be able to address multiple respiratory treatment needs, including treatment of exacerbations, chronic excessive mucus secretion and the mucus component of chronic bronchitis. In pharmacological testing using an inhaled formulation of cobiprostone in a guinea pig model to assess changes in respiratory and pulmonary function, cobiprostone reduced cigarette smoke-induced airway resistance and restored forced expiratory volume. We plan to conduct additional preclinical testing of this inhaled formulation of cobiprostone as a potential treatment for chronic obstructive pulmonary disease.

SPI-017

Overview

We are conducting preclinical development of SPI-017 for the treatment of peripheral arterial and vascular disease and central nervous system disorders. Initially, we are working on the development of an intravenous formulation of SPI-017 for the treatment of peripheral arterial disease and stroke. 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 and Phase I clinical trials of the oral formulation in 2009. Results from the Phase I trials of both the intravenous and the oral formulations may be useful in the development of any of these indications.

In preclinical *in vitro* tests on human cell lines, SPI-017 activated chloride channels in very low concentrations on a variety of cells found in the central nervous system and peripheral blood vessels. We are currently evaluating the safety profile of SPI-017 in preclinical toxicology studies.

Potential Indications

Peripheral Arterial and Vascular Disease. Peripheral arterial disease, which also is sometimes referred to as peripheral vascular disease, is a chronic condition that results from narrowing of the vessels that supply blood to the stomach, kidneys, arms, legs and feet. Peripheral arterial disease is caused by the build-up of fatty deposits, or plaque, in the inner walls of the arteries as a result of a vascular condition known as atherosclerosis. This build-up of plaque restricts the flow of blood throughout the body, particularly in the arms and legs, and can lead to painful cramping and fatigue after exercise. The American Heart Association estimates that peripheral arterial disease affects as many as 8 million to 12 million people in the United States.

Anti-platelet medications, vasodilators and prostaglandins represent the most frequently prescribed treatments for peripheral arterial disease, but they have little or no impact on symptoms or the underlying atherosclerotic process. Palux® (alprostadil) and Liple® (alprostadil) are used for the treatment of chronic arterial occlusion in Japan, but are not currently available in the United States. In addition, Palux and other prostaglandin E1 drug products should not be administered to patients with bleeding disorders or patients being treated with chronic anti-platelet medications, such as aspirin, due to the detrimental effect of these products on platelet aggregation. Despite the need for additional treatments, we believe that few novel therapies are being explored.

In preclinical animal studies, intravenously administered SPI-017 counteracted blood vessel constriction induced by a chemical agent without significantly affecting blood pressure. In addition, in preclinical animal studies, SPI-017 had no effect on platelet aggregation. We believe that this may suggest that SPI-017, unlike Palux and other prostaglandin E1 drugs, could be used to treat patients with bleeding disorders or patients being treated with chronic anti-platelet medications. We are planning additional experiments to further test the activity of SPI-017 in animal models of peripheral arterial disease.

Stroke. Ischemic stroke occurs when an artery that supplies blood to the brain becomes blocked due to a blood clot or other blockage or when blood flow is otherwise reduced as a result of a heart condition. During ischemic stroke, a high rate of damage of neuronal cells in the brain usually leads to permanent functional loss. The

American Heart Association estimates that approximately 700,000 patients in the Unites States suffer strokes annually, 88% of which are ischemic strokes.

The thrombolytic Activase® (alteplase, recombinant) is the principal drug currently used to treat acute ischemic stroke in the United States. To be effective, treatment with Activase must be initiated within three hours after the onset of stroke symptoms. In addition, because Activase is contraindicated in patients with intracranial hemorrhaging or active internal bleeding, treatment should be initiated only after exclusion of these conditions.

In animal studies, intravenously administered SPI-017 reduced the extent of cerebral tissue damage in experimentally induced ischemic stroke in rats. In these studies, intravenous SPI-017 administered shortly after the restoration of blood flow also significantly reduced the extent of tissue damage. We are planning additional animal tests to further define the time window for administration of SPI-017 and the concentration range.

Alzheimer's Disease. Alzheimer's disease is a chronic debilitating disease, with patients suffering from a progressive dementia over a number of years, ultimately resulting in severe incapacitation and a shortened lifespan. According to the Alzheimer's Association, there are approximately 4.5 million Alzheimer's disease patients in the United States.

While the causes of Alzheimer's disease are currently not well understood, it is widely recognized that particular regions of the brain may play a central role in memory. The brain comprises a complex network of neurons that enable memory, sensation, emotion and other cognitive functions. Neurons are highly specialized cells that are capable of communicating with each other through biochemical transmission across junctions called synapses. For this communication to occur, neurons secrete chemicals, known as neurotransmitters, that bind to receptors on neighboring neurons. Coordinated communication across synapses is essential for the formation of memories.

Several classes of ion channels play a critical role in both the activation of neurons and in the secretion of neurotransmitters across synapses. In particular, some classes of potassium ion channels, sodium ion channels and calcium ion channels have been shown to be critical in the cascade of events that leads to the secretion of neurotransmitters in key regions of the brain associated with memory. We believe that some of these channels may be important in the process of memory formation and retention.

Preliminary data from a preclinical study of SPI-017 in a rat model of Alzheimer's disease suggests that orally administered SPI-017 may restore cognitive behavior. We are planning additional studies to further define the activity of SPI-017 in this animal model.

Marketing and Sales

We are co-promoting AMITIZA in the United States with Takeda. We plan to market other product candidates that we may bring to market through a combination of our own sales capabilities and co-marketing, co-promotion, licensing and distribution arrangements with third-party collaborators.

As we develop other products for commercialization, we intend to evaluate the merits of retaining commercialization rights for ourselves, entering into similar collaborative arrangements with leading pharmaceutical companies to help further develop and commercialize our product candidates or a combination of both. Our decision whether to enter into collaborative arrangements will be based on such factors as anticipated development costs, therapeutic expertise and the commercial infrastructure required to access a particular market. We expect that in many of these arrangements, we will seek to co-promote our products in the United States and, in some cases, other markets as part of our ongoing effort to build our internal sales and marketing capabilities.

As part of this strategy, we entered into a 16-year collaboration and license agreement with Takeda in October 2004 for the joint development and commercialization of AMITIZA for gastrointestinal indications in the United States and Canada. In early 2006, we exercised the co-promotion rights under our collaboration and license agreement with Takeda in order to begin developing a specialized sales force to market AMITIZA and other gastrointestinal-related products to complement Takeda's sales efforts. Our initial strategy is to focus our marketing and sales efforts on promoting AMITIZA in the institutional marketplace, including specialist physicians based in academic medical centers and long-term care facilities. This institutional market is characterized by a concentration

of elderly patients, who we believe will be a key market for AMITIZA to treat gastrointestinal indications, and by physicians who are key opinion leaders in the gastrointestinal field. Takeda is marketing AMITIZA more broadly to office-based specialty physicians and primary care physicians. Pursuant to the terms of the collaboration and license agreement, Takeda is required to provide a dedicated sales force of at least 200 people to promote AMITIZA and a supplemental sales force of at least 500 people to promote AMITIZA together with one other drug product. Takeda is currently utilizing TAP Pharmaceutical Products, Inc., or TAP, a joint venture between an affiliate of Takeda and Abbot Laboratories, to provide this supplemental sales force. Takeda has advised us that the supplemental sales force being supplied by TAP consists of approximately 750 people and is marketing AMITIZA together with Prevacid® (lansoprazole), a product for the treatment of gastroesophageal reflux disease, ulcers and a variety of other gastrointestinal indications.

In late 2005 and early 2006, in anticipation of the launch of AMITIZA, we recruited an experienced sales and marketing management team comprising an executive vice president of commercial operations, a vice president of national sales, a director of medical marketing, a national sales director and four regional sales managers.

Effective July 1, 2007, we amended our contract sales agreement with Ventiv Commercial Services, LLC, or Ventiv, under which Ventiv provided us with a contract specialty sales force of 38 field sales representatives to market AMITIZA in our targeted institutional market. Pursuant to the amendment, we no longer use Ventiv to provide our specialty sales force and we hired a significant portion of Ventiv's sales staff dedicated to AMITIZA as employees of our company. Although these sales representatives became employees of our company, we are continuing to outsource most of the operational infrastructure associated with this sales force from Ventiv and, in some cases, through other vendors. In connection with this internalization of our specialty sales force, we incurred approximately $250,000 of transition expenses, primarily recruiting and training expenses.

We believe that the institutional focus of our specialty sales force, which targets academic medical centers and long-term care providers, would facilitate our ability to sell other products for the treatment of a variety of indications in several therapeutic fields that are concentrated in the institutional setting, as well as additional products in our own pipeline that might be approved. In particular, we expect that our specialty sales force will develop expertise over time that could be useful in marketing additional products for the treatment of gastrointestinal indications and for the treatment of the elderly. We intend to pursue strategic acquisitions, in-licensing or co-promotion opportunities to supplement our existing product pipeline, especially those that would add products complementary to the focus of our specialty sales force.

Takeda Collaboration

In October 2004, we entered into a 16-year collaboration and license agreement with Takeda to jointly develop and commercialize AMITIZA for gastrointestinal indications in the United States and Canada. This agreement provides Takeda with exclusive rights within these two countries to develop and commercialize AMITIZA for these indications under all relevant patents, know-how and trademarks. Takeda does not have the right to manufacture AMITIZA. Instead, Takeda is required to purchase all supplies of the product from R-Tech under a supply and purchase agreement between Takeda and R-Tech.

Development Costs. The agreement provides for development cost-sharing arrangements in which Takeda funds all development costs for the development of AMITIZA as a treatment for chronic idiopathic constipation and irritable bowel syndrome with constipation up to $30.0 million, of which we received the full amount in 2005. We are required to fund the next $20.0 million in development costs for these two indications, and all development costs in excess of $50.0 million are shared equally between Takeda and us. In addition, Takeda and we share equally in all external costs of regulatory-required studies up to $20.0 million, with Takeda funding any remaining costs related to such studies. For any additional indications beyond chronic idiopathic constipation and irritable bowel syndrome with constipation and for new formulations of AMITIZA, Takeda has agreed to fund all development costs, including regulatory-required studies, to a maximum of $50.0 million for each new indication and $20.0 million for each new formulation. Takeda and we have agreed to share equally all costs in excess of these amounts. With respect to any studies required to modify or expand the label for AMITIZA for the treatment of chronic idiopathic constipation or irritable bowel syndrome with constipation, Takeda has agreed to fund 70% of the costs of such studies and we have agreed to fund the remainder. With respect to the development costs for AMITIZA for the

treatment of chronic idiopathic constipation in pediatric patients, the Joint Commercialization Committee described below has determined that such costs will be funded entirely by Takeda.

Commercialization Funding Commitment. Takeda is obliged to maintain a specific level of funding for activities in relation to the commercialization of AMITIZA. This funding obligation is $10.0 million per year so long as marketing approval for the product in the United States is limited to the treatment of chronic idiopathic constipation. If we receive marketing approval in the United States for the treatment of irritable bowel syndrome with constipation and we and Takeda jointly determine to conduct a full-scale direct-to-consumer television advertising campaign for AMITIZA, Takeda's funding obligation for commercialization activities will increase to $80.0 million per year for three years.

Promotion and Marketing. Takeda is required to provide a dedicated sales force of at least 200 people to promote AMITIZA and a supplemental sales force of 500 people to promote AMITIZA together with one other drug product. In addition, Takeda is required to perform specified minimum numbers of product detail meetings with health care professionals throughout the term of the agreement depending upon the indications for which AMITIZA has been approved.

Co-Promotion Rights. Under the agreement, we retained co-promotion rights, which we exercised in February 2006, resulting in a related supplemental agreement. In connection with our exercise of these rights, we agreed to establish our own specialty sales force consisting of a team of approximately 38 field sales representatives. The supplemental agreement provides that Takeda will fund a portion of our sales force costs, for a period of five years from the date we first deploy our sales representatives. We may increase the total number of our sales representatives and receive additional funding from Takeda for any related costs up to a specified annual amount, subject to the unanimous approval of the Joint Commercialization Committee described below.

Medical and Scientific Activities. We also are entitled to receive cost reimbursement from Takeda on a case-by-case negotiated basis for a part of our commercialization efforts after launch with respect to specific medical and scientific activities undertaken by us. Takeda is to retain overall responsibility for managing these medical and scientific activities. We were responsible for the development of all publications directed at a scientific audience until January 31, 2007, with this work being reimbursed by Takeda up to a specified limit. We retain all intellectual property rights over the material in these publications. After January 31, 2007, Takeda is primarily responsible for the development of these publications.

Licensing Fees, Milestone Payments and Royalties. Takeda made an up-front payment of $20.0 million in 2004 and has paid total development milestone payments of $80.0 million through December 31, 2007, which includes a $30.0 million milestone payment as a result of our submission to the FDA in June 2007 of a supplement to our existing NDA for AMITIZA seeking marketing approval for AMITIZA for the treatment of irritable bowel syndrome with constipation. Subject to reaching future development and commercial milestones, we are entitled to receive $50.0 million upon FDA approval of our sNDA, and, thereafter, up to $10.0 million in additional development milestone payments and up to $50.0 million in commercial milestone payments. We expect a PDUFA action in late April 2008 relating to this sNDA. In addition, upon commercialization of any product covered by the agreement, Takeda is required to pay us a quarterly royalty on net sales revenue on sales of the commercialized product.

Governance. Our collaboration with Takeda is governed by several committees consisting of an equal number of representatives from both companies. These consist of a joint steering committee, which resolves any conflicts arising within the other committees, a joint development committee, a joint commercialization committee and a joint manufacturing committee. In the case of a deadlock within the joint steering committee, our chief executive officer has the determining vote on matters arising from the Joint Development and Manufacturing Committees, while Takeda's representative has the determining vote on matters arising from the Joint Commercialization Committee.

New Indications and Additional Territories. Under the agreement, Takeda has a right of first refusal to obtain a license to develop and commercialize AMITIZA in the United States and Canada for any new indications that we may develop. In addition, the agreement granted Takeda an option to exclusively negotiate with our affiliated European and Asian operating companies, Sucampo Pharma Europe Ltd., or Sucampo Europe, and Sucampo

Pharma Ltd., or Sucampo Japan, to jointly develop and commercialize AMITIZA in two additional territories: Europe, the Middle East, and Africa; and Asia. With respect to the negotiation rights for Europe, the Middle East and Africa, Takeda was required to pay Sucampo Europe an option fee of $3.0 million. In the event that these negotiations failed to produce a definitive agreement before we received marketing approval in the United States for AMITIZA for the treatment of chronic idiopathic constipation in adults, Sucampo Europe was required to repay Takeda $1.5 million of the original option fee. With respect to the negotiation rights for Asia, Takeda was required to pay Sucampo Japan an option fee of $2.0 million. In the event that these negotiations failed to produce a definitive agreement within twelve months, Sucampo Japan was required to repay Takeda $1.0 million of the original option fee. By the first quarter of 2006, the option rights for both territories had expired without agreement and, accordingly, we repaid Takeda an aggregate of $2.5 million of the original option fees. The amounts we retained were recorded as contract revenue in the statements of operations when the negotiations failed and agreements expired.

Under the agreement, if we wish to use data or information developed under the collaboration with Takeda outside the United States or Canada, for example in support of a regulatory filing in Europe or Asia, we are obligated to pay to Takeda a one-time fee the first time such data or information is used in specified territories. The amount of the fee for each territory is to be agreed between us and Takeda. In February 2008, in connection with our MAA for lubiprostone in Europe, we agreed with Takeda to make a one-time payment of $1.8 million, which will permit us to use in Europe, the Middle East and Africa all data and information developed under the agreement relating to the use of lubiprostone to treat chronic idiopathic constipation.

Term. The Takeda agreement continues until 2020 unless earlier terminated. We may terminate the agreement if Takeda fails to achieve specific levels of net sales revenue, or if Takeda comes under the control of another party and launches a product competitive with AMITIZA. Alternatively, either party has the right to terminate the agreement in the following circumstances:

- a breach of the agreement by the other party that is not cured within 90 days, or 30 days in the case of a breach of payment obligations;
- a change of control of the other party in which the new controlling party does not expressly affirm its continuing obligations under the agreement;
- insolvency of the other party; or
- a failure to receive marketing approval from the FDA for AMITIZA for the treatment of irritable bowel syndrome with constipation and subsequent failure of the parties to agree on an alternative development and commercialization strategy.

Intellectual Property

Our success depends in part on our ability, and that of Sucampo AG, to obtain and maintain proprietary protection for the technology and know-how upon which our products are based, to operate without infringing on the proprietary rights of others and to prevent others from infringing on our proprietary rights.

We hold an exclusive worldwide royalty-bearing license from Sucampo AG to develop and commercialize AMITIZA and 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 will in turn license back to us on an exclusive basis. If we have not committed specified development efforts to any prostone compound other than AMITIZA, 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. Ueno and Kuno 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. Sucampo AG, based in Zug, Switzerland, is the patent holding company that maintains the patent portfolio derived from Dr. Ueno’s research with prostone technology.

As of December 31, 2007, we had licensed from Sucampo AG rights to a total of 52 U.S. patents, 21 U.S. patent applications, 28 European patents, 17 European patent applications, 35 Japanese patents and 21 Japanese patent

applications. Many of these patents and patent applications are counterparts of each other. Our portfolio of licensed patents includes patents or patent applications with claims directed to the composition of matter, including both compound and pharmaceutical formulation, or method of use, or a combination of these claims, for AMITIZA, cobiprostone and SPI-017. Depending upon the timing, duration and specifics of FDA approval of the use of a compound for a specific indication, some of our U.S. patents may be eligible for limited patent term extension under the Drug Price Competition and Patent Term Restoration Act of 1984, referred to as the Hatch-Waxman Act.

The patent rights relating to AMITIZA licensed by us consist of seven issued U.S. patents, five issued European patents and two issued Japanese patents relating to composition of matter and methods of use. These patent rights also include various U.S., European and Japanese patent applications relating to dosing, pharmaceutical formulation and other claims. The U.S. patents relating to composition of matter expire between 2011 and 2020. The other U.S. and foreign patents expire between 2008 and 2022.

The patent rights relating to cobiprostone licensed by us consist of nine issued U.S. patents, six issued European patents, and six issued Japanese patents relating to composition of matter and methods of use. These patent rights also include various U.S., European and Japanese patent applications relating to dosing regimes, pharmaceutical formulation and other claims. The U.S. patents relating to composition of matter expire between 2011 and 2020. The other U.S. and foreign patents expire between 2008 and 2022.

The patent rights relating to SPI-017 licensed by us consist of ten issued U.S. patents, six issued European patents and five issued Japanese patents relating to methods of use. These patent rights also include various U.S., European and Japanese patent applications relating to composition of matter and methods of use. If the application for a U.S. patent relating to composition of matter were granted, this patent would expire in 2020. The U.S. patents relating to methods of use and the other U.S. and foreign patents expire between 2010 and 2022.

We are actively seeking to augment the patent protection of our licensed compounds by focusing on the development of new chemical entities, or NCEs, such as AMITIZA, cobiprostone and SPI-017, which have not previously received FDA approval. Upon approval by the FDA, NCEs are entitled to market exclusivity in the United States with respect to generic drug products for a period of five years from the date of FDA approval, even if the related patents have expired.

The patent positions of companies like ours are generally uncertain and involve complex legal and factual questions. Our ability to maintain and solidify our proprietary position for our technology will depend on our success, in conjunction with Sucampo AG, in obtaining effective claims and enforcing those claims once granted. In some cases, we license patent applications instead of issued patents, and we do not know whether any of the patent applications will result in the issuance of any patents. Our licensed patents may be challenged, invalidated or circumvented, which could limit our ability to stop competitors from marketing related products or the length of term of patent protection that we may have for our products. In addition, our competitors may independently develop similar technologies or duplicate any technology developed by us, and the rights granted under any issued patents may not provide us with any meaningful competitive advantages against these competitors. Furthermore, because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our product candidates can be commercialized, any related patent may expire or remain in force for only a short period following commercialization, thereby reducing any advantage of the patent.

We may rely, in some circumstances, on trade secrets to protect our technology. However, trade secrets can be difficult to protect. We seek to protect our proprietary technology and processes, in part, by confidentiality agreements with our employees, consultants, scientific advisors and contractors. We also seek to preserve the integrity and confidentiality of our data and trade secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems. While we have confidence in these individuals, organizations and systems, agreements or security measures may be breached, and we may not have adequate remedies for any breach. In addition, our trade secrets may otherwise become known or be independently discovered by competitors. To the extent that our consultants or contractors use intellectual property owned by others in their work for us, disputes may arise as to the rights in related or resulting know-how and inventions.

License from Sucampo AG

On June 30, 2006, we entered into a restated license agreement with Sucampo AG. Under this agreement, Sucampo AG has granted to us a royalty-bearing, exclusive, worldwide license, with the right to sublicense, to develop and commercialize AMITIZA, cobiprostone and SPI-017 and any other prostone compounds, other than RESCULA, subject to Sucampo AG's patents. Under the terms of the license, which became effective upon our initial public offering, we are obligated to assign to Sucampo AG any patentable improvements derived or discovered by us relating to AMITIZA, cobiprostone and SPI-017 through the term of the license. In addition, we are obligated to assign to Sucampo AG any patentable improvements derived or discovered by us relating to other licensed prostone compounds prior to the date which is the later of June 30, 2011 or the date on which Drs. Ueno and Kuno cease to control our company. For purposes of this agreement, Drs. Ueno and Kuno will be deemed to control our company as long as either they together own a majority of the voting power of our stock or at least one of them is a member or our board of directors. All compounds assigned to Sucampo AG under this agreement will be immediately licensed back to us on an exclusive basis.

In consideration of the license, we are required to make milestone and royalty payments to Sucampo AG. The milestone payments include:

- a payment of $500,000 upon the initiation of the first Phase II clinical trial for each compound in each of three territories covered by the license: North, Central and South America (including the Caribbean), Asia and the rest of the world; and
- a payment of $1.0 million for the first NDA filing or comparable foreign regulatory filing for each compound in each of the same three territories.

Upon payment of the above milestones, no further payments will be required either for new indications or formulations or for further regulatory filings for the same compound in additional countries within the same territory. In November 2007, when we initiated a Phase II trial in Japan, we became obligated to pay Sucampo AG $500,000. Subsequent to December 31, 2007, when we filed a MAA with the Medicines and Healthcare Products Regulatory Agency of the United Kingdom, we became obligated to pay Sucampo AG $1.0 million.

In addition, we are required to pay Sucampo AG 5% of any up-front or milestone payments that we receive from sublicensees.

Under the license, we also are required to pay Sucampo AG, on a country-by-country basis, ongoing patent royalties as follows:

- With respect to sales of AMITIZA in North, Central and South America, including the Caribbean, this royalty is set at 2.2% of net sales. With respect to sales of AMITIZA in other countries and to sales of other licensed compounds covered by patents existing as of the date of the restated license agreement, we are required to pay a royalty of 4.5% of net sales until the last existing patent covering each relevant compound has expired.
- Thereafter, if we have assigned any relevant improvement patents to Sucampo AG with respect to AMITIZA in North, Central and South America, including the Caribbean, we are required to pay 1.1% of net sales. With respect to sales of AMITIZA in other countries and other licensed compounds, we are required to pay a royalty of 2.25% of net sales, until the last improvement patent covering each relevant compound has expired.
- With respect to sales of licensed compounds covered by new patents derived by us and assigned to Sucampo AG after the date of the restated license agreement, we are required to pay a royalty of 2.25% of net sales until the terms of the last new patent covering each relevant compound have expired.

In addition, we are required to pay Sucampo AG, on a country-by-country basis, a know-how royalty of 2% of net sales, or 1% of net sales in the case of sales of AMITIZA in North, Central and South America, including the Caribbean, until the fifteenth anniversary of the first sale of the respective compound. All product royalties required to be paid under the license are based on total product net sales, whether by us or a sublicensee, and not on amounts actually received by us.

The license from Sucampo AG is perpetual as to AMITIZA, cobiprostone and SPI-017 and cannot be terminated unless we default in our payment obligations to Sucampo AG. With respect to any other licensed prostone compounds, we are required to perform preclinical testing over a specified period on those compounds and to generate specified pharmacological and toxicity data. The specified period ends on the later of June 30, 2011 or the date upon which Drs. Ueno and Kuno no longer control our company. Following the end of the specified period, Sucampo AG can terminate our license with respect to any compounds as to which we have not performed the required testing, except for any compounds we designate as compounds for which we intend in good faith to perform the required testing within the 15 months following the end of the specified period. At the end of the 15-month extension period, Sucampo AG may terminate our license as to any of the designated compounds for which we have not performed the required testing.

We will need to focus our development resources and funding on a limited number of compounds during the specified period. The decision whether to commit development resources to a particular compound will require us to determine which compounds have the greatest likelihood of commercial success. Dr. Ueno and his staff will be instrumental in making these decisions on our behalf, although to assist in this determination, we have formed a selection committee consisting of certain members of management other than Drs. Ueno and Kuno.

We retain the rights to any improvements, know-how or other intellectual property we develop that is not related to prostones. We also retain the rights to any improvements, know-how or other intellectual property we develop after the end of the specified period, even if they are related to prostones.

The agreement provides that, until the later to occur of June 30, 2011 or until Drs. Ueno and Kuno cease to control our company, Sucampo AG may not develop or commercialize:

- any products with a primary mode of action substantially the same as that of any licensed compound; or
- any products licensed or approved for an indication for which a licensed compound is approved or under development.

Thereafter, Sucampo AG may undertake development of competing products but may not commercialize these products for an additional two years.

As part of this license, we have assumed the responsibility to pay the patent filing and maintenance costs related to the licensed rights. In return, we have control over patent filing and maintenance decisions. The license agreement also specifies how we and Sucampo AG will allocate costs to defend patent infringement litigation brought by third parties and costs to enforce patents against third parties.

Manufacturing

We do not own or operate manufacturing facilities for the production of commercial quantities of AMITIZA or preclinical or clinical supplies of the other prostone compounds that we are testing in our development programs. Instead, we rely, and expect to continue to rely, exclusively on our affiliate R-Tech to supply us with AMITIZA, cobiprostone and SPI-017 and any future prostone compounds that we determine to develop or commercialize. Drs. Ueno and Kuno own, directly and indirectly, a majority of the stock of R-Tech.

We, together with our subsidiary, Sucampo Europe, have entered into an exclusive supply arrangement with R-Tech. Under the terms of this arrangement, we have granted to R-Tech the exclusive right to manufacture and supply AMITIZA to meet our commercial and clinical requirements in the Americas, Europe, the Middle East and Africa until 2026. In the future, we intend to expand this arrangement to include our subsidiary, Sucampo Japan, in order to meet our commercial and clinical requirements for AMITIZA in Asia. With the exception of the exclusive supply agreements with Takeda described below, R-Tech is prohibited from supplying AMITIZA to anyone other than us during this period. Our supply arrangement with R-Tech also provides that R-Tech will assist us in connection with applications for marketing approval for AMITIZA in the United States and elsewhere, including assistance with regulatory compliance for chemistry, manufacturing and controls. In consideration of these exclusive rights, R-Tech has paid to us $8.0 million in up-front and milestone payments. Either we or R-Tech may terminate the supply arrangement with respect to us or Sucampo Europe in the event of the other party’s uncured breach or insolvency.

In anticipation of the commercial development of AMITIZA, Takeda, R-Tech and we entered into a 16-year supply agreement in October 2004, which was supplemented by a definitive supply and purchase agreement in January 2006. Under these agreements, R-Tech agreed to supply and Takeda agreed to purchase all of Takeda's commercial requirements, including product samples, for AMITIZA in the United States and Canada. Pursuant to the terms of these agreements, Takeda is required to provide R-Tech with a rolling 24-month forecast of its product and sample requirements and R-Tech is required to keep adequate levels of inventory in line with this forecast. In addition, these agreements require R-Tech to maintain a six-month supply of the active ingredient used in manufacturing AMITIZA and a six-month supply of AMITIZA in bulk form as backup inventory. Upon a termination of the collaboration and license agreement between Takeda and us, either Takeda or we may terminate these supply agreements by notice to R-Tech.

R-Tech is Takeda's and our sole supplier of AMITIZA. In the event that R-Tech cannot meet some or all of Takeda's or our demand, neither Takeda nor we have alternative manufacturing arrangements in place. However, R-Tech has agreed to maintain at least a six-month supply of AMITIZA and a six-month supply of the active ingredient used in manufacturing AMITIZA as a backup inventory. R-Tech may draw down this backup inventory to supply AMITIZA to us in the event that R-Tech is unable or unwilling to produce AMITIZA to meet our demand. We also have the right to qualify a back-up supplier for AMITIZA. In the event that R-Tech is unwilling or unable to meet our demand, R-Tech will grant to that back-up supplier a royalty-free license to use any patents or know-how owned by R-Tech relating to the manufacturing process for AMITIZA and will provide, upon our reasonable request and at our expense, consulting services to the back-up supplier to enable it to establish an alternative manufacturing capability for AMITIZA. We may purchase AMITIZA from the back-up supplier until R-Tech is able and willing to meet our demand for AMITIZA.

R-Tech operates a manufacturing facility near Osaka, Japan that we believe is compliant with current good manufacturing practices, or cGMP. In October 2005, R-Tech received approval from the FDA to manufacture AMITIZA at this facility. In addition, R-Tech manufactures its own prostone product RESCULA at this facility and has been the sole supplier of this product to the marketplace since 1994 without interruption.

We have also entered into an exclusive supply arrangement with R-Tech to provide us with clinical supplies of our product candidates cobiprostone and SPI-017, as well as any other prostone compound we may designate, and to assist us in connection with applications for marketing approval for these compounds in the United States and elsewhere, including assistance with regulatory compliance for chemistry, manufacturing and controls. This clinical supply arrangement has a two year term which renews automatically for one-year periods unless we and R-Tech agree not to renew it. Either we or R-Tech may terminate the clinical supply arrangement with respect to us or one of our operating subsidiaries in the event of the other party's uncured breach or insolvency.

Competition

The biotechnology and pharmaceutical industries are characterized by rapidly advancing technologies, intense competition and a strong emphasis on proprietary products. While we believe that our technologies, knowledge, experience, and resources provide us with competitive advantages, we face potential competition from many different sources, including commercial pharmaceutical and biotechnology enterprises, academic institutions, government agencies, and private and public research institutions. AMITIZA and any other product candidates that we successfully develop and commercialize will compete with existing therapies and new therapies that may become available in the future.

Many of our competitors may have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals, and marketing approved products than we do. These competitors also compete with us in recruiting and retaining qualified scientific and management personnel, as well as in acquiring technologies complementary to, or necessary for, our programs. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies.

Our commercial opportunity could be reduced or eliminated if our competitors develop and commercialize products that are safer, more effective, have fewer side effects, are more convenient or are less expensive than AMITIZA or the other product candidates that we are developing. A competitive product might become more

popular if it is approved for sale over the counter. In addition, our ability to compete may be affected because in some cases insurers or other third-party payors seek to encourage the use of generic products. This may have the effect of making branded products less attractive, from a cost perspective, to buyers.

There are currently approved therapies for the diseases and conditions addressed by AMITIZA. For example, the osmotic laxatives MiraLax, which is marketed by Braintree Laboratories, Inc., and lactulose, which is produced by Solvay S.A., have each been approved for the short-term treatment of occasional constipation. MiraLax was recently approved for sale as an over-the-counter treatment.

Zelnorm, a partial serotonin-receptor agonist, which is marketed by Novartis, has been approved both for the treatment of chronic idiopathic constipation in adults under 65 years of age and for the short-term treatment of irritable bowel syndrome with constipation in women. In March 2007, however, at the request of the FDA, Zelnorm was withdrawn from the U.S. market by Novartis. The FDA requested that Novartis discontinue marketing Zelnorm based on an identified finding of an increased risk of serious cardiovascular adverse events associated with use of the drug. Since July 2007, the FDA has permitted restricted use of Zelnorm under a treatment IND protocol for patients whose physicians determine the drug is medically necessary. Zelnorm remains off the market for general use.

Several companies also are working to develop new drugs and other therapies for these same diseases and conditions. Some of these potential competitive drug products include:

- Drugs targeting serotonin receptors for the treatment of irritable bowel syndrome with constipation, such as Renzapride, being developed by Alizyme plc and currently in Phase III clinical trials, DDP733, being developed by Dynogen Pharmaceuticals, Inc. and currently in Phase II clinical trials, and Linaclotide, being developed by Microbia, Inc. and currently in Phase II clinical trials;
- Opioid antagonists such as methylnaltrexone, being developed by Progenics Pharmaceuticals, Inc., for the treatment of opioid-induced bowel dysfunction. Progenics and its collaboration partner Wyeth Pharmaceuticals recently filed an NDA with the FDA for a subcutaneous formulation of this drug for the treatment of opioid-induced bowel dysfunction in patients receiving palliative care. Adolor Corporation, the developer of another opioid antagonist, Entereg ® (alvimopan), recently announced that it was withdrawing its protocol for an additional Phase III clinical trial of Entereg to treat opioid-induced bowel dysfunction, which had previously been filed with the FDA, based upon preliminary Phase III trial safety results that suggest potential links between use of Entereg and adverse cardiovascular events, tumor development and bone fractures; and
- TD-5108, being developed by Theravance, Inc. for the treatment of chronic constipation, and linaclotide, being developed by Microbia, Inc. for the treatment of irritable bowel syndrome with constipation, both of which have recently completed phase II clinical trials.

We face similar competition from approved therapies and potential drug products for the diseases and conditions to be addressed by cobiprostone, SPI-017 and our other product candidates.

The key competitive factors affecting the success of all of our product candidates are likely to be their efficacy, safety, price and convenience.

Government Regulation

Government authorities in the United States, at the federal, state and local level, and in other countries extensively regulate, among other things, the research, development, testing, approval, manufacturing, labeling, post-approval monitoring and reporting, packaging, promotion, storage, advertising, distribution, marketing and export and import of pharmaceutical products such as those we are developing. The process of obtaining regulatory approvals and the subsequent substantial compliance with appropriate federal, state, local and foreign statutes and regulations require the expenditure of substantial time and financial resources.

United States Government Regulation

In the United States, the information that must be submitted to the FDA in order to obtain approval to market a new drug varies depending upon whether the drug is a new product whose safety and efficacy have not previously been demonstrated in humans or a drug whose active ingredients and certain other properties are the same as those of a previously approved drug. A product whose safety and efficacy have not previously been demonstrated in humans will follow the NDA route.

The NDA Approval Process

In the United States, the FDA regulates drugs under the Federal Food, Drug, and Cosmetic Act, as amended, and implements regulations. Failures to comply with the applicable FDA requirements at any time during the product development process, approval process or after approval may result in administrative or judicial sanctions. These sanctions could include the FDA's imposition of a hold on clinical trials, refusal to approve pending applications, withdrawal of an approval, warning letters, product recalls, product seizures, total or partial suspension of production or distribution, injunctions, fines, civil penalties or criminal prosecution. Any agency or judicial enforcement action could have a material adverse effect on us.

The steps required before a drug may be marketed in the United States include:

- completion of preclinical laboratory tests, animal studies and formulation studies under the FDA's good laboratory practices regulations;
- submission to the FDA of an IND for human clinical testing, which must become effective before human clinical trials may begin and which must include a commitment that an independent Institutional Review Board, or IRB, will be responsible for the review and approval of each proposed study and that the investigator will report to the IRB proposed changes in research activity;
- performance of adequate and well-controlled clinical trials in accordance with good clinical practices to establish the safety and efficacy of the product for each indication;
- submission to the FDA of an NDA;
- satisfactory completion of an FDA Advisory Committee review, if applicable;
- satisfactory completion of an FDA inspection of the manufacturing facility or facilities at which the product is produced to assess compliance with cGMP to assure that the facilities, methods and controls are adequate to preserve the product's identity, strength, quality and purity; and
- FDA review and approval of the NDA.

Preclinical tests include laboratory evaluations of product chemistry, toxicology and formulation, as well as animal studies. An IND sponsor must submit the results of the preclinical tests, together with manufacturing information and analytical data, to the FDA as part of the IND. Preclinical testing generally continues after the IND is submitted. The IND must become effective before human clinical trials may begin. An IND will automatically become effective 30 days after receipt by the FDA, unless before that time the FDA raises concerns or questions about issues such as the conduct of the trials as outlined in the IND. In that case, the IND sponsor and the FDA must resolve any outstanding FDA concerns or questions before clinical trials can proceed. In other words, submission of an IND does not guarantee that the FDA will allow clinical trials to commence.

Clinical trials involve the administration of the investigational product to human subjects under the supervision of qualified investigators. Clinical trials are conducted under protocols detailing, among other things, the objectives of the study, the parameters to be used in monitoring safety and the effectiveness criteria to be evaluated. A protocol for each clinical trial and any subsequent protocol amendments must be submitted to the FDA as part of the IND. In addition, an IRB at each site at which the study is conducted must approve the protocol, any amendments to the protocol and related materials such as informed consent documents and investigator brochures. All research subjects must provide their informed consent in writing.

Clinical trials typically are conducted in three sequential phases, but the phases may overlap or be combined. Phase I trials usually involve the initial introduction of the investigational drug into healthy volunteers to evaluate the product's safety, dosage tolerance and pharmacokinetics, or the process by which the product is absorbed, distributed, metabolized and eliminated by the body, and, if possible, to gain an early indication of its effectiveness.

Phase II trials usually involve trials in a limited patient population to:

- evaluate dosage tolerance and appropriate dosage;
- identify possible adverse effects and safety risks; and
- provide a preliminary evaluation of the efficacy of the drug for specific indications.

Phase II trials are sometimes denoted as Phase IIa or Phase IIb trials. Phase IIa trials typically represent the first human clinical trial of a drug candidate in a smaller patient population and are designed to provide earlier information on drug safety and efficacy. Phase IIb trials typically involve larger numbers of patients and may involve comparison with placebo, standard treatments or other active comparators.

Phase III trials usually further evaluate clinical efficacy and test further for safety in an expanded patient population. Phase III trials usually involve comparison with placebo, standard treatments or other active comparators. These trials are intended to establish the overall risk-benefit profile of the product and provide an adequate basis for physician labeling.

Phase I, Phase II and Phase III testing may not be completed successfully within any specified period, if at all. Furthermore, the FDA or we may suspend or terminate clinical trials at any time on various grounds, including a finding that the subjects or patients are being exposed to an unacceptable health risk. Similarly, an IRB can suspend or terminate approval of research if the research is not being conducted in accordance with the IRB's requirements or if the research has been associated with unexpected serious harm to patients.

Assuming successful completion of the required clinical testing, the results of the preclinical studies and of the clinical trials, together with other detailed information, including information on the chemistry, manufacture and composition of the product, are submitted to the FDA in the form of an NDA requesting approval to market the product for one or more indications. In most cases, a substantial user fee must accompany the NDA. The FDA will initially review the NDA for completeness before it accepts the NDA for filing. After the NDA submission is accepted for filing, the FDA reviews the NDA to determine, among other things, whether a product is safe and effective for its intended use and whether the product is being manufactured in accordance with cGMP to assure and preserve the product's identity, strength, quality and purity.

Under the Pediatric Research Equity Act of 2003, or PREA, all NDAs or supplements to NDAs relating to a new active ingredient, new indication, new dosage form, new dosing regimen or new route of administration must contain data to assess the safety and effectiveness of the drug for the claimed indications in all relevant pediatric subpopulations and to support dosing and administration for each pediatric subpopulation for which the drug is determined to be safe and effective. The FDA may grant deferrals for submission of data or full or partial waivers, as it did in connection with our NDA for AMITIZA for the treatment of chronic idiopathic constipation. Unless otherwise required by regulation, PREA does not apply to any drug for an indication for which orphan designation has been granted.

Before approving an NDA, the FDA will inspect the facility or the facilities at which the product is manufactured. The FDA will not approve the product unless cGMP compliance is satisfactory. If the FDA determines the application, manufacturing process or manufacturing facilities are not acceptable, it will outline the deficiencies in the submission and often will request additional testing or information. Notwithstanding the submission of any requested additional information, the FDA ultimately may decide that the application does not satisfy the regulatory criteria for approval.

With respect to approval for a new indication where the product candidate is already approved for another indication, the results of product development, pre-clinical studies and clinical trials are submitted to the FDA as part of an NDA supplement. The FDA may deny approval of an NDA supplement if the applicable regulatory criteria are not satisfied, or it may require additional clinical data or an additional pivotal Phase III clinical trial.

Even if such data are submitted, the FDA may ultimately decide that the NDA supplement does not satisfy the criteria for approval.

The testing and approval process requires substantial time, effort and financial resources, and each may take several years to complete. Data obtained from clinical activities are not always conclusive and may be susceptible to varying interpretations, which could delay, limit or prevent regulatory approval. The FDA may not grant approval on a timely basis, or at all. We may encounter difficulties or unanticipated costs in our efforts to secure necessary governmental approvals, which could delay or preclude us from marketing our products. The FDA may limit the indications for use or place other conditions on any approvals that could restrict the commercial application of the products. After approval, some types of changes to the approved product, such as manufacturing changes and additional labeling claims, are subject to further FDA review and approval.

Post-Approval Requirements

After regulatory approval of a product is obtained, we are required to comply with a number of post-approval requirements. For example, as a condition of approval of an NDA, the FDA may require post marketing, or Phase IV, trials to assess the product's long-term safety or efficacy. In addition, holders of an approved NDA are required to report certain adverse reactions and production problems to the FDA, to provide updated safety and efficacy information and to comply with requirements concerning advertising and promotional labeling for their products. Also, quality control and manufacturing procedures must continue to conform to cGMP after approval. The FDA periodically inspects manufacturing facilities to assess compliance with cGMP, which imposes certain procedural, substantive and recordkeeping requirements. Accordingly, manufacturers must continue to expend time, money and effort in the area of production and quality control to maintain compliance with cGMP and other aspects of regulatory compliance.

We rely, and expect to continue to rely, on third parties for the production of clinical and commercial quantities of our product candidates. Future FDA inspections may identify compliance issues at our facilities or at the facilities of our contract manufacturers that may disrupt production or distribution, or require substantial resources to correct. In addition, discovery of problems with a product or the failure to comply with applicable requirements may result in restrictions on a product, manufacturer or holder of an approved NDA, including withdrawal or recall of the product from the market or other voluntary, FDA-initiated or judicial action that could delay or prohibit further marketing. Newly discovered or developed safety or effectiveness data may require changes to a product's approved labeling, including the addition of new warnings and contraindications. Also, new government requirements, including those resulting from new legislation, may be established that could delay or prevent regulatory approval of our products under development.

Orphan Drug Designation

We have received an orphan drug designation from the FDA for our product candidate cobiprostone for the treatment of disorders associated with cystic fibrosis and may pursue orphan drug designation for additional product candidates, as appropriate. The FDA may grant orphan drug designation to drugs intended to treat a "rare disease or condition" that affects fewer than 200,000 individuals in the United States, or more than 200,000 individuals in the United States and for which there is no reasonable expectation that the cost of developing and making available in the United States a drug for this type of disease or condition will be recovered from sales in the United States for that drug. Orphan drug designation must be requested before submitting an application for marketing approval. Orphan drug designation does not convey any advantage in, or shorten the duration of, the regulatory review and approval process. Orphan drug designation can provide opportunities for grant funding towards clinical trial costs, tax advantages and FDA user-fee benefits. In addition, if a product which has an orphan drug designation subsequently receives the first FDA approval for the indication for which it has such designation, the product is entitled to orphan drug exclusivity, which means the FDA may not approve any other application to market the same drug for the same indication for a period of seven years, except in limited circumstances, such as a showing of clinical superiority to the product with orphan exclusivity. Competitors may receive approval of different drugs or biologics for the indications for which the orphan product has exclusivity or may receive approval of the same drug as the orphan drug product for a different indication.

Regulation Outside the United States

In addition to regulations in the United States, we will be subject to a variety of regulations in other jurisdictions governing clinical trials and commercial sales and distribution of our products. Whether or not we obtain FDA approval for a product, we must obtain approval of a product by the comparable regulatory authorities of countries outside the United States before we can commence clinical trials or marketing of the product in those countries. The approval process varies from country to country, and the time may be longer or shorter than that required for FDA approval. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary greatly from country to country.

Europe

To obtain regulatory approval of a drug under European Union regulatory systems, we may submit marketing authorizations either under a centralized or decentralized procedure. The centralized procedure, which is compulsory for medicines produced by certain biotechnological processes and optional for those which are highly innovative, provides for the grant of a single marketing authorization that is valid for all European Union member states. All marketing authorizations for products designated as orphan drugs must be granted in accordance with the centralized procedure. The decentralized procedure provides for a member state, known as the reference member state, to assess an application, with one or more other, or concerned, member states subsequently approving that assessment. Under this procedure, an applicant submits an application, or dossier, and related materials including a draft summary of product characteristics, and draft labeling and package leaflet, to the reference member state and concerned member states. The reference member state prepares a draft assessment and related materials within 120 days after receipt of a valid application. Within 90 days of receiving the reference member state's assessment report, each concerned member state must decide whether to approve the assessment report and related materials. If a member state cannot approve the assessment report and related materials on the grounds of potential serious risk to the public health, any disputed points may be referred to the European Commission, whose decision is binding on all member states.

The European Medicines Agency, or EMEA, grants orphan drug designation to promote the development of products that may offer therapeutic benefits for life-threatening or chronically debilitating conditions affecting not more than five in 10,000 people in the European Union. In addition, orphan drug designation can be granted if the drug is intended for a life threatening, seriously debilitating or serious and chronic condition in the European Union and that without incentives it is unlikely that sales of the drug in the European Union would be sufficient to justify developing the drug. Orphan drug designation is only available if there is no other satisfactory method approved in the European Union of diagnosing, preventing or treating the condition, or if such a method exists, the proposed orphan drug will be of significant benefit to patients. Orphan drug designation provides opportunities for free protocol assistance, fee reductions for access to the centralized regulatory procedures before and during the first year after marketing authorization and 10 years of market exclusivity following drug approval. Fee reductions are not limited to the first year after authorization for small and medium enterprises. The exclusivity period may be reduced to six years if the designation criteria are no longer met, including where it is shown that the product is sufficiently profitable that maintaining market exclusivity is not justified. In addition, European regulations establish that a competitor's marketing authorization for a similar product with the same indication may be granted if there is an insufficient supply of the product or if the competitor can establish that its product is safer, more effective or otherwise clinically superior.

Japan

In Japan, pre-marketing approval and clinical studies are required for all pharmaceutical products. The regulatory regime for pharmaceuticals in Japan has in the past been so lengthy and costly that it has been cost-prohibitive for many pharmaceutical companies. Historically, Japan has required that all clinical data submitted in support of a new drug application be performed on Japanese patients. Recently, however, as a part of the global drug harmonization process, Japan has signaled a willingness to accept United States or European Union patient data when submitted along with a bridging study, which demonstrates that Japanese and non-Japanese subjects react comparably to the product. This approach, which is executed on a case-by-case basis, may reduce the time required for approval and introduction of new products into the Japanese market.

Amendments to Japan's drug regulatory legislation went into effect in April 2005.

- Under the revised legislation, Japan adopted a marketing authorization process comparable to the European Union authorization and United States NDA. This is expected to allow greater flexibility on the part of Japanese manufacturers to efficiently organize their production/marketing activities.
- The amended legislation requires worldwide compliance with good manufacturing practice requirements by exporters of pharmaceutical products to Japan and detailed disclosure of the manufacturing process to the Japanese authorities, as well as to the importer in Japan.

The Japanese government has also announced that it will consider introducing a new proprietary data exclusivity period of up to eight years in order to protect the value of clinical data.

Regulation of the Health Care Industry

In addition to the regulatory approval requirements described above, we are or will be directly, or indirectly through our customers, subject to extensive regulation of the health care industry by the federal government and the states and foreign countries in which we may conduct our business. The laws that directly or indirectly affect our ability to operate our business include the following:

- the federal Medicare and Medicaid Anti-Kickback law, which prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce either the referral of an individual, or furnishing or arranging for a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid Programs;
- other Medicare laws, regulations, rules, manual provisions and policies that prescribe the requirements for coverage and payment for services performed by our customers, including the amount of such payment;
- the federal False Claims Act, which imposes civil and criminal liability on individuals and entities who submit, or cause to be submitted, false or fraudulent claims for payment to the government;
- the federal False Statements Act, which prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services; and
- state and foreign law equivalents of the foregoing and state laws regarding pharmaceutical company marketing compliance, reporting and disclosure obligations.

If our operations are found to be in violation of any of these laws, regulations, rules or policies or any other law or governmental regulation to which we or our customers are or will be subject, or if interpretations of the foregoing change, we may be subject to civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs and the curtailment or restructuring of our operations. Similarly, if our customers are found non-compliant with applicable laws, they may be subject to sanctions.

Pharmaceutical Pricing and Reimbursement

In the United States and markets in other countries, sales of any products for which we receive regulatory approval for commercial sale will depend in part on the availability of reimbursement from third-party payors. Third-party payors include government health administrative authorities, managed care providers, private health insurers and other organizations. These third-party payors are increasingly challenging the price and examining the cost-effectiveness of medical products and services. In addition, significant uncertainty exists as to the reimbursement status of newly approved healthcare product candidates. We may need to conduct expensive pharmacoeconomic studies in order to demonstrate the cost-effectiveness of our products. Our product candidates may not be considered cost-effective. Adequate third-party reimbursement may not be available to enable us to maintain price levels sufficient to realize an appropriate return on our investment in product development.

In 2003, the United States government enacted legislation providing a partial prescription drug benefit for Medicare recipients, which became effective at the beginning of 2006. Government payment for some of the costs of prescription drugs may increase demand for any products for which we receive marketing approval. However, to

obtain payments under this program, we would be required to sell products to Medicare recipients through drug procurement organizations operating pursuant to this legislation. These organizations would negotiate prices for our products, which are likely to be lower than the prices we might otherwise obtain. Federal, state and local governments in the United States continue to consider legislation to limit the growth of healthcare costs, including the cost of prescription drugs. Future legislation could limit payments for pharmaceuticals, including AMITIZA and the drug candidates that we are developing.

The marketability of any products for which we receive regulatory approval for commercial sale may suffer if the government and third-party payors fail to provide adequate coverage and reimbursement. In addition, an increasing emphasis on managed care in the United States has increased and will continue to increase the pressure on pharmaceutical pricing.

Another development that may affect the pricing of drugs is proposed Congressional action regarding drug reimportation into the United States. Proposed legislation would allow the reimportation of approved drugs originally manufactured in the United States back into the United States from other countries where the drugs are sold at a lower price. If such legislation or similar regulatory changes were enacted, they could reduce the price we receive for any approved products, which, in turn, could adversely affect our revenues. Even without legislation authorizing reimportation, patients have been purchasing prescription drugs from Canadian and other non-United States sources, which have reduced the price received by pharmaceutical companies for their products.

Different pricing and reimbursement schemes exist in other countries. In the European Community, governments influence the price of pharmaceutical products through their pricing and reimbursement rules and control of national health care systems that fund a large part of the cost of such products to consumers. The approach taken varies from member state to member state. Some jurisdictions permit products to be marketed only after a reimbursement price has been agreed. Other member states allow companies to fix their own prices for medicines, but monitor and control company profits.

In Japan, the National Health Ministry biannually reviews the pharmaceutical prices of individual products. In the past, these reviews have resulted in price reductions. In the 2006 biannual review, the Japanese government reduced the overall drug reimbursement rates. We expect similar price reviews in the future, in line with the government's previously announced plan for controlling health care costs. It is not possible to predict the outcome of these reviews, and it is possible that Japanese authorities will again reduce drug reimbursement rates, which could adversely affect the reimbursement levels for our products or product candidates.

Executive Officers

The following table lists our executive officers and their ages as of March 1, 2008.

Name	Age	Position
Ryuji Ueno, M.D., Ph.D., Ph.D.	54	Chief Executive Officer, Chief Scientific Officer and Director, Chairman of the Board of Directors
Mariam E. Morris	40	Chief Financial Officer and Treasurer
Brad E. Fackler	54	Executive Vice President of Commercial Operations
Gayle R. Dolecek	65	Senior Vice President of Research and Development
Kei S. Tolliver	34	Vice President of Business Development and Company Operations and Secretary

Ryuji Ueno, M.D., Ph.D., Ph.D. Dr. Ueno is a founder of our company and has been our Chief Executive Officer since September 2006 and our Chief Scientific Officer since August 2004. Dr. Ueno also became the Chairman of our Board of Directors effective June 1, 2007 following the resignation of Dr. Kuno from that position. Dr. Ueno also served as Chief Operating Officer from December 1996 to November 2000 and again from March 2006 to September 2006 and as Chief Executive Officer from December 2000 to September 2003. Dr. Ueno has been a director since 1996 and served as Chairman of our Board of Directors from December 2000 to September 2006. Dr. Ueno co-founded our affiliate R-Tech in September 1989 and served as its President from 1989 to March 2003. Dr. Ueno also co-founded Sucampo AG in December 1997 and served as its Chairman of the Board or Vice Chairman of the Board since its inception. Dr. Ueno received his M.D. and a Ph.D. in medical chemistry from Keio

University in Japan, and he received a Ph.D. in Pharmacology from Osaka University. Dr. Ueno is married to Dr. Kuno.

Mariam E. Morris. Ms. Morris has been our Chief Financial Officer and Treasurer since January 2008 and served as our Chief Accounting Officer and Treasurer from January 2007 to December 2007. Ms. Morris served as our Chief Financial Officer from March 2006 to December 2006 and as our Director of Finance from February 2004 to March 2006. From January 2003 to February 2004, she worked as an independent consultant for AuditWatch, Inc., a training and consultancy firm for the audit profession. Ms. Morris was a supervising auditor with the public accounting firm of Snyder, Cohn, Collyer, Hamilton & Associates, P.C. from November 2001 to December 2002. Ms. Morris also was a senior auditor with the public accounting firm of PricewaterhouseCoopers LLP from September 2000 to October 2001. Ms. Morris is a certified public accountant and holds a B.B.A. degree in Accounting from Texas Tech University and a Master's degree in Taxation from Old Dominion University.

Brad E. Fackler. Mr. Fackler has been our Executive Vice President of Commercial Operations since September 2005. From January 2005 to September 2005, Mr. Fackler was Vice President of The Collaborative Group, a specialty consultancy firm servicing the pharmaceutical industry. From September 2004 until January 2005, he was self-employed. From 1978 to September 2004, Mr. Fackler was a senior sales executive for Novartis Pharmaceuticals Corporation. Mr. Fackler holds a Bachelors degree in Life Science from Otterbein College and an M.B.A. degree from New York University, Leonard Stern School of Business.

Gayle R. Dolecek. Dr. Dolecek has been our Senior Vice President of Research and Development since May 2006. From August 1995 to April 2006, he was a Senior Consultant at AAC Consulting Group, Inc., a provider of regulatory consulting services to the pharmaceutical industry. Prior to 1995, Dr. Dolecek was an officer with the U.S. Public Health Service where he served in pharmacy and health service related positions. He completed his career with the government in the Food and Drug Administration as Director of Compendial Operations in the Center for Drug Evaluation and Research. Dr. Dolecek received his B.S./P.D. in Pharmacy from the University of Maryland and a M.P.H. in Health Services and Planning from the University of Hawaii.

Kei S. Tolliver. Ms. Tolliver has been our Vice President of Business Development and Company Operations and Secretary since March 2006. From October 2004 to March 2006, Ms. Tolliver was our Director of Business Development. Since joining our company in May 1998, Ms. Tolliver has held a number of positions within the Sucampo group of affiliated companies, including Director of Business Development for S&R, a position she has held since May 2002, supplemental director for Sucampo AG, a position she has held since September 2004, director of Sucampo Pharma, Ltd., a position she has held since July 2004, and General Manager and director of Sucampo Pharma Europe Ltd., a position she has held since January 2003. Ms. Tolliver holds a Bachelors degree in Political Science from West Virginia University.

Employees

As of December 31, 2007, we had 104 full-time employees, including 32 with doctoral or other advanced degrees. Of our workforce, 27 employees are engaged in research and development, 50 are engaged in sales and marketing and 27 are engaged in business development, legal, finance and administration. None of our employees are represented by a labor union or covered by collective bargaining agreements. We have never experienced a work stoppage and believe our relationship with our employees is good.

Our Dual Class Capital Structure

We have two classes of common stock authorized, class A common stock and class B common stock. Holders of class A common stock and class B common stock have identical rights, except that holders of class A common stock are entitled to one vote per share and holders of class B common stock are entitled to ten votes per share on all matters on which stockholders are entitled to vote.

As of March 20, 2008, we have outstanding 15,542,768 shares of class A common stock and 26,191,050 shares of class B common stock. The class B common stock represents approximately 95% of the combined voting power of our outstanding common stock. All of the shares of class B common stock are owned by S&R. As a result, Drs. Ueno and Kuno will be able to control the outcome of all matters upon which our stockholders vote, including

the election of directors, amendments to our certificate of incorporation and mergers or other business combinations.

We are not authorized to issue additional shares of class B common stock except in limited circumstances, such as a stock split of both classes of common stock or a stock dividend made in respect of both classes of common stock. Shares of class B common stock will automatically be converted into shares of class A common stock upon transfer, with limited exceptions for transfers to family trusts. In addition, all remaining outstanding shares of class B common stock will automatically be converted into shares of class A common stock upon the death, legal incompetence or retirement from our company of both Drs. Ueno and Kuno or at such time as the number of outstanding shares of class B common stock is less than 20% of the number of outstanding shares of class A and class B common stock together.

In this report, we refer to our authorized class A common stock and class B common stock together as our common stock.

Our Corporate Information

We were incorporated under the laws of Delaware in December 1996. Our principal executive offices are located at 4520 East-West Highway, Suite 300, Bethesda, Maryland 20814, and our telephone number is (301) 961-3400. In September 2006, we acquired all of the capital stock of two affiliated European and Asian operating companies, Sucampo Pharma Europe Ltd., or Sucampo Europe, and Sucampo Pharma, Ltd., or Sucampo Japan, that were previously under common control with us.

Website Access to U.S. Securities and Exchange Commission Reports

Our Internet address is http://www.sucampo.com. Through our website, we make available, free of charge, access to all reports filed with the U.S. Securities and Exchange Commission including our Annual Reports on Form 10-K, our Quarterly Reports on Form 10-Q, our Current Reports on Form 8-K and amendments to these reports, as filed with or furnished to the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Copies of any materials we file with, or furnish to, the SEC can also be obtained free of charge through the SEC's website at http://www.sec.gov or at the SEC's Public Reference Room at 100 F Street, N.E.,Room 1580, Washington, DC 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330.

ITEM 1A. *RISK FACTORS*

In addition to the other information set forth in this report, the following factors should be considered carefully in evaluating our business and our company.

Risks Related to Our Limited Commercial Operations

Although we had net income in 2007 and 2006, we have historically incurred operating losses and we might not achieve or maintain operating profitability.

We initiated commercial sales of our first product, AMITIZA, for the treatment of chronic idiopathic constipation in adults in April 2006, and we first generated product royalty revenue in the quarter ended June 30, 2006. We have historically incurred operating losses and, as of December 31, 2007, we had an accumulated deficit of $10.2 million. Although we had net income of $13.2 million in 2007 and $21.8 million in 2006, this was primarily attributable to our development milestones of $30.0 million and $20.0 million earned in 2007 and 2006, respectively, which we recognized as revenue over the development period for AMITIZA, which was completed in June 2007. Our historical losses have resulted 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 at least the next several years as we continue our research activities and conduct development of, and seek regulatory approvals for, additional indications for AMITIZA and for other drug candidates. Whether we are able to achieve operating profitability in the future will depend upon our ability to

generate revenues that exceed our expenses. Changes in market conditions, including the failure or approval of competing products, may require us to incur more expenses or change the timing of expenses such that we may incur unexpected losses. Even if we do achieve profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis. If we are unable to achieve and maintain profitability, the market value of our class A common stock will decline.

If we are unable to successfully commercialize our first product, AMITIZA, for the treatment of chronic idiopathic constipation in adults or other indications for which we are developing this drug, including irritable bowel syndrome with constipation, or experience significant delays in doing so, our ability to generate product-based revenues and achieve profitability will be jeopardized.

In the near term, our ability to generate product-based revenues will depend on the successful commercialization and continued development of AMITIZA. We recorded our first product royalty revenue from AMITIZA in the quarter ended June 30, 2006. The commercial success of AMITIZA will depend on several factors, including the following:

- the effectiveness of Takeda's sales force, as supplemented by our internal specialty sales force, in marketing and selling AMITIZA in the United States for the treatment of chronic idiopathic constipation in adults;
- the ability of R-Tech, which has the exclusive right to manufacture and supply AMITIZA, or any substitute manufacturer to supply quantities sufficient to meet market demand and at acceptable levels of quality and price;
- acceptance of the product within the medical community and by third-party payors;
- successful completion of clinical trials of AMITIZA for the treatment of other constipation-related gastrointestinal indications beyond chronic idiopathic constipation and irritable bowel syndrome with constipation, and acceptance of the results of these trials by regulatory authorities; and
- receipt of marketing approvals from the FDA and similar foreign regulatory authorities for the treatment of other indications, including marketing approval in the United States for AMITIZA to treat irritable bowel syndrome with constipation.

If we are not successful in commercializing AMITIZA for the treatment of chronic idiopathic constipation or other indications, or are significantly delayed in doing so, our business will be materially harmed.

We have limited experience commercializing drug products. If we are not successful in making the transition from a pre-commercial stage company to a commercial company, our ability to become profitable will be compromised.

For most of our operating history, we have been a pre-commercial stage company. We are in the process of transitioning to a company capable of supporting commercial activities, and we may not be successful in accomplishing this transition. Our operations to date have been limited largely to organizing and staffing our company, developing prostone technology, undertaking preclinical and clinical trials of our product candidates and coordinating the U.S. regulatory approval process for AMITIZA for the treatment of chronic idiopathic constipation in adults. To make the transition to a commercial company, we will need to continue to develop internally, or contract with third parties to provide us with, the capabilities to manufacture a commercial scale product and to conduct the sales and marketing activities necessary for successful product commercialization. While we are currently utilizing R-Tech to perform these manufacturing functions and Takeda to perform many of these sales and marketing functions with respect to the sale of AMITIZA in the United States, we may nevertheless encounter unforeseen expenses, difficulties, complications and delays as we establish these commercial functions for AMITIZA and for other products for which we may receive regulatory marketing approval. As we continue to develop and seek regulatory approval of additional product candidates and additional indications for AMITIZA, and to pursue regulatory approvals for AMITIZA and other products outside the United States, it could be difficult for us to obtain and devote the resources necessary to successfully manage our commercialization efforts. If we are not successful in completing our transition to a commercial company, our ability to become profitable will be jeopardized and the market price of our class A common stock is likely to decline.

Risks Related to Employees and Managing Growth

If we are unable to retain our chief executive and chief scientific officer and other key executives, we may not be able to successfully develop and commercialize our products.

We are highly dependent on Dr. Ryuji Ueno, our chief executive officer and chief scientific officer, and the other principal members of our executive and scientific teams, including Mariam Morris, our chief financial officer, Brad Fackler, our executive vice president of commercial operations, Gayle Dolecek, our senior vice president of research and development, and Kei Tolliver, our vice president of business development and company operations. The loss of the services of any of these persons might impede the achievement of our product development and commercialization objectives and it might be difficult to recruit a replacement executive for any of their positions. We have employment agreements with these executives, but these agreements are terminable by the employees on short or no notice at any time without penalty to the employee. We do not maintain key-man life insurance on any of our executives.

If we fail to attract, retain and motivate qualified personnel, we may not be able to pursue our product development and commercialization programs.

Recruiting and retaining qualified scientific and commercial personnel, including clinical development, regulatory, and marketing and sales executives and field personnel, will be critical to our success. If we fail to recruit and then retain these personnel, our ability to pursue our clinical development and product commercialization programs will be compromised. We may not be able to attract and retain these personnel on acceptable terms given the competition among numerous pharmaceutical and biotechnology companies for similar personnel. We also experience competition for the hiring of scientific personnel from universities and research institutions.

We expect to expand our development, regulatory, sales and marketing, and finance and accounting capabilities, and as a result, we may encounter difficulties in managing our growth, which could disrupt our operations.

We expect to experience significant growth in the number of our employees and the scope of our operations, particularly in the areas of drug development, regulatory affairs, sales and marketing and finance and accounting. To manage our anticipated future growth, we must continue to implement and improve our managerial, operational and financial systems, expand our facilities, and continue to recruit and train additional qualified personnel. Due to our limited resources, we may not be able to effectively manage the expansion of our operations or recruit and train additional qualified personnel. The expansion of our operations may lead to significant costs and may divert our management and business development resources. The challenges of managing our growth will become more significant as we expand the operations of Sucampo Europe and Sucampo Japan. Any inability to manage growth could delay the execution of our business plans or disrupt our operations.

The requirements of being a public company may strain our resources and distract management.

We completed our initial public offering in August 2007. As a public company, we will incur significant legal, accounting, corporate governance and other expenses that we did not incur as a private company. We are subject to the requirements of the Exchange Act, the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley, The NASDAQ Global Market, and other rules and regulations. These rules and regulations may place a strain on our systems and resources. The Exchange Act requires, among other things, that we file annual, quarterly and current reports with respect to our business and financial condition. Sarbanes-Oxley requires, among other things, that we maintain effective disclosure controls and procedures and internal control over financial reporting. The first time that we and our external auditors will be required to issue a report on the design and operating effectiveness of our internal controls over financial reporting will be as of December 31, 2008. We currently do not have an internal audit group. In order to maintain and improve the effectiveness of our disclosure controls and procedures and internal controls over financial reporting, we will need to devote significant resources and management oversight. As a result, management’s attention may be diverted from other business concerns. In addition, we will need to hire additional accounting staff with appropriate public company experience and technical accounting knowledge and we cannot assure you that we will be able to do so in a timely fashion.

The rules and regulations applicable to us as a public company may make it more difficult and more expensive for us to obtain director and officer liability insurance and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers.

We may experience material weaknesses in our internal controls over financial reporting, which could result in delays of our public filings and be costly to correct.

We have in the past identified material weaknesses in our internal controls over financial reporting. Although we have remediated these material weaknesses, if we identify other material weaknesses in the future and are unable to remediate them, we may not be able to accurately and timely report our financial position, results of operations or cash flows as a public company. Becoming subject to the public reporting requirements of the Securities Exchange Act upon the completion of the initial public offering intensified the need for us to report our financial position, results of operations and cash flows on an accurate and timely basis. If we are not able to prepare complete and accurate financial statements on a timely basis, this could result in delays in our public filings and ultimately delisting of our class A common stock from its principal trading market.

Risks Related to Product Development and Commercialization

Commercial rights to some prostone compounds will revert back to Sucampo AG in the future unless we devote sufficient development resources to those compounds during the next several years; if any of the compounds that revert back to Sucampo AG subsequently become valuable compounds, we will have lost the commercial rights to those compounds and will not be able to develop or market them, and the reverted compounds could ultimately compete with compounds we are developing or marketing.

Sucampo AG has granted to us an exclusive worldwide license to develop and commercialize products based upon Sucampo AG's extensive portfolio of U.S. and foreign patents and patent applications relating to prostone technology. To retain our license rights to any prostone compounds other than AMITIZA, cobiprostone and SPI-017, which are perpetual, we are required to perform preclinical testing over a specified period on those compounds and to generate specified pharmacological and toxicity data. The specified period ends on the later of June 30, 2011 or the date upon which Drs. Ueno and Kuno no longer control our company. For purposes of this agreement, Drs. Ueno and Kuno will be deemed to control our company as long as either they together own a majority of the voting power of our stock or at least one of them is a member of our board of directors. Following the end of the specified period, Sucampo AG can terminate our license with respect to any compounds as to which we have not performed the required testing, except for any compounds we designate as compounds for which we intend in good faith to perform the required testing within 15 months following the expiration of the specified period. At the end of that 15-month period, Sucampo AG may terminate our license as to any of the designated compounds for which we have not performed the required testing. Dr. Ueno and his wife, Dr. Kuno, indirectly own all the stock of Sucampo AG.

We will need to focus our development resources and funding on a limited number of compounds during the specified period. The decision whether to commit development resources to a particular compound will require us to determine which compounds have the greatest likelihood of commercial success. Dr. Ueno and his staff will be instrumental in making these decisions on our behalf, although to assist in this determination, we have formed a selection committee consisting of certain members of management that exclude Drs. Ueno and Kuno. In this process, we will likely commit resources to some compounds that do not prove to be commercially feasible and we may overlook other compounds that later prove to have significant commercial potential. If we do not identify and commit resources to one of these valuable compounds, the commercial rights with respect to the compound will eventually revert back to Sucampo AG. After the reversion of these rights to Sucampo AG, we will have no ability to develop or commercialize the compound. Although Sucampo AG will be prohibited from developing products that compete with our products prior to the end of the specified period, thereafter they will be free to develop competitive products. In addition, although Sucampo AG will be prohibited from marketing products that compete with our products for 24 months after the end of the specified period, after that date Sucampo AG will be permitted to market products, including products covered by the reverted license rights, in competition with us.

If our preclinical studies do not produce successful results or if our clinical trials do not demonstrate safety and efficacy in humans, our ability to develop additional indications for AMITIZA and to develop and commercialize other product candidates will be impaired.

Before obtaining regulatory approval for the sale of our product candidates, we must conduct extensive preclinical tests and clinical trials to demonstrate the safety and efficacy in humans of our product candidates. Preclinical and clinical testing is expensive, is difficult to design and implement, can take many years to complete and is uncertain as to outcome. Success in preclinical testing and early clinical trials does not ensure that later clinical trials will be successful, and interim results of a clinical trial do not necessarily predict final results. A failure of one or more of our clinical trials can occur at any stage of testing. We may experience numerous unforeseen events during, or as a result of, preclinical testing and the clinical trial process that could delay or prevent our ability to receive regulatory approval or commercialize our product candidates, including:

- regulators or institutional review boards may not authorize us to commence a clinical trial or conduct a clinical trial at a prospective trial site;
- our preclinical tests or clinical trials may produce negative or inconclusive results, and as a result we may decide, or regulators may require us, to conduct additional preclinical testing or clinical trials or we may abandon projects that we consider to be promising. For example, the efficacy results in two of our Phase II trials of cobiprostone, specifically the trials for the treatment of non-alcoholic fatty liver disease and for the treatment of symptoms associated with cystic fibrosis, were inconclusive. Therefore, further clinical testing will be required in connection with the development of this compound for these indications;
- design of or enrollment in our clinical trials may be slower than we currently anticipate, resulting in significant delays, or participants may drop out of our clinical trials at rates that are higher than we currently anticipate;
- we might have to suspend or terminate our clinical trials, or perform additional trials, if we discover that the participating patients are being exposed to unacceptable health risks;
- regulators or institutional review boards may require that we hold, suspend or terminate clinical research for various reasons, including noncompliance with regulatory requirements;
- the cost of our clinical trials may be greater than we currently anticipate;
- we might have difficulty obtaining sufficient quantities of the product candidate being tested to complete our clinical trials;
- any regulatory approval we ultimately obtain may be limited or subject to restrictions or post-approval commitments that render the product not commercially viable; and
- the effects of our product candidates may not be the desired or anticipated effects or may include undesirable side effects, or the product candidates may have other unexpected characteristics. For example, in preclinical tests of AMITIZA, the drug demonstrated a potential to cause fetal loss in guinea pigs and, as a result, its label includes cautionary language as to its use by pregnant women.

If we are required to conduct additional clinical trials or other testing of our product candidates beyond those that we currently contemplate, if we are unable to successfully complete our clinical trials or other testing or if the results of these trials or tests are not positive or are only modestly positive, we may:

- be delayed in obtaining marketing approval for our product candidates;
- not be able to obtain marketing approval; or
- obtain approval for indications that are not as broad as those for which we apply.

Our product development costs will also increase if we experience delays in testing or approvals. We do not know whether our clinical trials will begin as planned, will need to be restructured or will be completed on schedule, if at all. Significant clinical trial delays also could allow our competitors to bring products to market before we do and impair our ability to commercialize our products or product candidates.

We are required to conduct supplemental post-marketing clinical trials of AMITIZA and we may elect to perform additional clinical trials for other indications or in support of applications for regulatory marketing approval in jurisdictions outside the United States. These supplemental trials could be costly and could result in findings inconsistent with or contrary to our historic U.S. clinical trials.

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 of the product in pediatric patients, in patients with renal impairment and in patients with hepatic impairment. In the future, we may be required, or we may elect, to conduct additional clinical trials of AMITIZA. In addition, if we seek marketing approval from regulatory authorities in jurisdictions outside the United States, such as the European Medicines Agency, or EMEA, they may require us to submit data from supplemental clinical trials in addition to data from the clinical trials that supported our U.S. filings with the FDA. Any requirements to conduct supplemental trials would add to the cost of developing our product candidates. Additional or supplemental trials could also produce findings that are inconsistent with the trial results we have previously submitted to the FDA, in which case we would be obligated to report those findings to the FDA. This could result in new restrictions on AMITIZA's existing marketing approval for chronic idiopathic constipation in adults or could force us to stop selling AMITIZA altogether. Inconsistent trial results could also lead to delays in obtaining marketing approval in the United States for other indications for AMITIZA or for other product candidates, could cause regulators to impose restrictive conditions on marketing approvals and could even make it impossible for us to obtain marketing approval. Any of these results could materially impair our ability to generate revenues and to achieve or maintain profitability.

If we are unable to establish sales and marketing capabilities or successfully use third parties to market and sell our products, we may be unable to generate sufficient product revenues to become profitable.

We currently have limited sales and distribution capabilities and little experience in marketing and selling pharmaceutical products. To achieve commercial success for AMITIZA and any other approved products, we must either further develop our internal sales and marketing organization or continue to outsource these functions to third parties. There are risks associated with either of these alternatives. For example, expanding a sales force would be expensive and time consuming and could delay any product launch. If the commercial launch of a product for which we recruit a sales force and establish marketing capabilities were delayed, we would incur related expenses too early relative to the product launch. This may be costly, and our investment would be lost if we could not retain our sales and marketing personnel.

We have entered into a joint collaboration and license agreement with Takeda for the commercialization of AMITIZA for gastrointestinal indications in the United States and Canada. Takeda will broadly market AMITIZA for the treatment of chronic idiopathic constipation in adults and for other constipation-related gastrointestinal indications, if approved, to office-based specialty physicians and primary care physicians in the United States. The Takeda sales force dedicated to selling AMITIZA will be significantly larger than our internal sales force, and we will therefore be heavily dependent on the marketing and sales efforts of Takeda. If our internal sales force is not effective, or if Takeda is less successful in selling AMITIZA than we anticipate, our ability to generate revenues and achieve profitability will be significantly compromised.

We face substantial competition which may result in others discovering, developing or commercializing products earlier or more successfully than we do.

The development and commercialization of pharmaceutical products is highly competitive. We expect to face intense competition with respect to AMITIZA and our other product candidates from major pharmaceutical companies, specialty pharmaceutical companies and biotechnology companies worldwide. Potential competitors also include academic institutions, government agencies, and other public and private research organizations that conduct research, seek patent protection and establish collaborative arrangements for research, development, manufacturing and commercialization. Our competitors may develop products that are safer, more effective, have fewer side effects, are more convenient or are less costly than AMITIZA or the other product candidates that we are developing or that would render AMITIZA or our other product candidates obsolete or uncompetitive. Our competitors may also obtain FDA or other regulatory approval for their products more rapidly than we may obtain approval for ours or achieve product commercialization before we do. A competitive product might become more

popular if it is approved for sale over the counter. If any of our competitors develops a product that is more effective, safer or more convenient for patients, or is able to obtain FDA approval for commercialization before we do, we may not be able to achieve market acceptance for our products, which would impair our ability to generate revenues and recover the substantial developments costs we have incurred and will continue to incur.

There are currently approved therapies for the diseases and conditions addressed by AMITIZA. For example, Zelnorm®, which is marketed by Novartis, has been approved both for the treatment of chronic idiopathic constipation in adults under 65 years of age and for the short-term treatment of irritable bowel syndrome with constipation in women. In March 2007, Zelnorm was withdrawn from the U.S. market by Novartis at the request of the FDA, but may continue to be sold in other countries and may be acquired for use by individuals in the United States and in other markets. In July 2007, the FDA granted Zelnorm a limited treatment IND, allowing for restricted use of Zelnorm for patients whose physicians determine the drug is medically necessary. Zelnorm remains off the market for general use. In addition, the osmotic laxatives MiraLax™ (polyethylene glycol 3350), which is marketed by Braintree Laboratories, Inc., and lactulose, which is produced by Solvay S.A., have each been approved for the short-term treatment of occasional constipation. Miralax was recently approved for sale as an over-the-counter treatment.

Several companies also are working to develop new drugs and other therapies for these same diseases and conditions. Some of these potential competitive drug products include:

- Drugs targeting serotonin receptors for the treatment of irritable bowel syndrome with constipation, such as Renzapride, being developed by Alizyme plc and currently in Phase III clinical trials, DDP733, being developed by Dynogen Pharmaceuticals, Inc. and currently in Phase II clinical trials, and Linaclotide, being developed by Microbia, Inc. and currently in Phase II clinical trials;
- Opioid antagonists such as methylnaltrexone, being developed by Progenics Pharmaceuticals, Inc., for the treatment of opioid-induced bowel dysfunction. Progenics and its partner Wyeth Pharmaceuticals recently filed an NDA with the FDA for a subcutaneous formulation of this drug for the treatment of opioid-induced bowel dysfunction in patients receiving palliative care; and
- TD-5108, being developed by Theravance, Inc. for the treatment of chronic constipation, and linaclotide, being developed by Microbia, Inc. for the treatment of irritable bowel syndrome with constipation, both of which have recently completed phase II clinical trials.

Many patients are treated for chronic idiopathic constipation with competing over-the-counter products that are sold for occasional or infrequent use or for recurring use and that are directly competitive with our products.

We face similar competition from approved therapies and potential drug products for the diseases and conditions addressed by cobiprostone and SPI-017, and are likely to face significant competition for any other product candidates we may elect to develop in the future.

Many of our competitors may have significantly greater financial resources and expertise in research and development, manufacturing, preclinical testing, conducting clinical trials, obtaining regulatory approvals, and marketing approved products than we do. Smaller or early stage companies may also prove to be significant competitors, particularly through collaborative arrangements with large and established companies.

The commercial success of AMITIZA and any other products that we may develop will depend upon the degree of market acceptance by physicians, patients, healthcare payors and others in the medical community.

AMITIZA and any other products that we bring to the market may not gain acceptance by physicians, patients, healthcare payors and others in the medical community. If these products do not achieve an adequate level of acceptance, we may not generate sufficient product revenues to become profitable. The degree of market acceptance of AMITIZA and any other products approved for commercial sale will depend on a number of factors, including:

- the prevalence and severity of any side effects. For example, the most common side effects reported by participants in our clinical trials of AMITIZA for the treatment of chronic idiopathic constipation were

nausea, which was reported by 31% of trial participants, and diarrhea and headache, both of which were reported by 13% of trial participants;

- the efficacy and potential advantages over alternative treatments;
- the competitiveness of the pricing of our products;
- relative convenience and ease of administration of our products compared to other alternatives;
- the timing of the release of our products to the public compared to alternative products or treatments;
- the willingness of the target patient population to try new therapies and of physicians to prescribe these therapies;
- the strength of marketing and distribution support; and
- the level of third-party coverage or reimbursement.

The recent withdrawal of Zelnorm from the U.S. market might adversely affect market acceptance of AMITIZA. The FDA requested that Novartis discontinue marketing Zelnorm based on an identified finding of an increased risk of serious cardiovascular adverse events associated with use of the drug. Although the mechanism of action of AMITIZA is different from that of Zelnorm, and although AMITIZA has not been associated with serious adverse cardiovascular events, nonetheless the withdrawal of Zelnorm may result in heightened concerns in the minds of some patients or physicians about the safety of using alternative treatments such as AMITIZA.

In addition, Adolor Corporation, the developer of an opioid antagonist, Entereg® (alvimopan), for the treatment of opioid-induced bowel dysfunction, recently announced that it was withdrawing its protocol for an additional Phase III clinical trial of Entereg to treat this condition, which had previously been filed with the FDA. This decision was reportedly based upon preliminary Phase III trial safety results that suggest potential links between use of Entereg and adverse cardiovascular events, tumor development and bone fractures. It is possible that this development, coming so shortly after the withdrawal of Zelnorm, could further confuse patients and physicians and lead to reluctance on their part to use and to prescribe new drugs to treat gastrointestinal conditions, even those with different mechanisms of action such as AMITIZA.

If we are unable to obtain adequate reimbursement from third-party payors for AMITIZA and any other products that we may develop, or acceptable prices for those products, our revenues and prospects for profitability will suffer.

Our revenues and ability to become profitable will depend heavily upon the availability of adequate reimbursement for the use of our products from governmental and other third party payors, both in the United States and in foreign markets. Reimbursement by a third-party payor may depend upon a number of factors, including the third-party payor's determination that use of a product is:

- a covered benefit under its health plan;
- safe, effective and medically necessary;
- appropriate for the specific patient;
- cost effective; and
- neither experimental nor investigational.

Obtaining reimbursement approval for a product from each government or other third-party payor is a time-consuming and costly process that could require us to provide supporting scientific, clinical and cost-effectiveness data for the use of our products to each payor. We may not be able to provide data sufficient to gain acceptance with respect to reimbursement. Even when a payor determines that a product is eligible for reimbursement, the payor may impose coverage limitations that preclude payment for some product uses that are approved by the FDA or comparable authorities. Moreover, eligibility for coverage does not imply that any product will be reimbursed in all cases or at a rate that allows us to make a profit or even cover our costs. If we are not able to obtain coverage and

profitable reimbursement promptly from government-funded and private third-party payors for our products, our ability to generate revenues and become profitable will be compromised.

Recent federal legislation will increase the pressure to reduce prices of prescription drugs paid for by Medicare, which could limit our ability to generate revenues.

In 2003, the United States government enacted legislation providing a partial prescription drug benefit for Medicare recipients, which became effective at the beginning of 2006. Government payment for some of the costs of prescription drugs may increase demand for any products for which we receive marketing approval. However, to obtain payments under this program, we will be required to sell products to Medicare recipients through drug procurement organizations operating pursuant to this legislation. These organizations will negotiate prices for our products, which are likely to be lower than those we might otherwise obtain. Federal, state and local governments in the United States continue to consider legislation to limit the growth of healthcare costs, including the cost of prescription drugs. Future legislation could limit payments for pharmaceuticals such as AMITIZA and the other product candidates that we are developing.

Legislation has been proposed from time to time that would permit re-importation of drugs from foreign countries into the United States, including foreign countries where the drugs are sold at lower prices than in the United States, which could force us to lower the prices at which we sell our products and impair our ability to derive revenues from these products.

Legislation has been introduced from time to time in the U.S. Congress that would permit more widespread re-importation of drugs from foreign countries into the United States. This could include re-importation from foreign countries where the drugs are sold at lower prices than in the United States. Such legislation, or similar regulatory changes, could lead to a decrease in the price we receive for any approved products, which, in turn, could impair our ability to generate revenues. Alternatively, in response to legislation such as this, we might elect not to seek approval for or market our products in foreign jurisdictions in order to minimize the risk of re-importation, which could also reduce the revenue we generate from our product sales.

Foreign governments tend to impose strict price controls, which may limit our ability to generate revenues.

In some foreign countries, particularly Japan and the countries of the European Union, the pricing of prescription pharmaceuticals is subject to governmental control. In these countries, pricing negotiations with governmental authorities can take considerable time after the receipt of marketing approval for a product. To obtain reimbursement or pricing approval in some countries, we may be required to conduct a clinical trial that compares the cost-effectiveness of our products to other available therapies. If reimbursement of our products is unavailable in particular countries or limited in scope or amount, or if pricing is set at unsatisfactory levels, our ability to generate revenue and profitably distribute products in these countries could be compromised.

If product liability lawsuits are brought against us, we may incur substantial liabilities and may be required to limit commercialization of any products that we may develop.

We face an inherent risk of product liability exposure, both from the testing of our product candidates in human clinical trials and from the sale of AMITIZA and any other drugs we may sell in the future. If we cannot successfully defend ourselves against claims that our products or product candidates caused injuries, we will incur substantial liabilities. Regardless of merit or eventual outcome, product liability claims may result in:

- decreased demand for AMITIZA or any other product that we may develop;
- injury to our reputation;
- withdrawal of clinical trial participants;
- costs to defend the related litigation;
- substantial monetary awards to trial participants or patients;

- loss of revenue; and
- the inability to continue to commercialize AMITIZA or to commercialize any other product that we may develop.

We currently have product liability insurance that covers our clinical trials in adult patients and our commercial sales of AMITIZA up to an annual aggregate limit of $20.0 million and that covers our clinical trials of AMITIZA in pediatric patients up to an annual aggregate limit of $5.0 million, in each case subject to a per claim deductible. The amount or scope of our product liability insurance may not be adequate to cover all liabilities that we may incur. Insurance coverage is increasingly expensive. We may not be able to maintain insurance coverage at a reasonable cost, and we may not be able to obtain insurance coverage that will be adequate to cover any liability that may arise. We may not have sufficient resources to pay for any liabilities resulting from a claim beyond the limits of our insurance coverage. If we cannot protect against product liability claims, we or our collaborators may find it difficult or impossible to commercialize our products.

Our strategy of generating growth through acquisitions and in-licenses may not be successful if we are not able to identify suitable acquisition or licensing candidates, to negotiate the terms of any such transaction or to successfully manage the integration of any acquisition.

As part of our business strategy, we intend to pursue strategic acquisitions and in-licensing opportunities with third parties to complement our existing product pipeline. We have no experience in completing acquisitions with third parties to date and we may not be able to identify appropriate acquisition or licensing candidates or to successfully negotiate the terms of any such transaction. The licensing and acquisition of pharmaceutical and biological products is a competitive area. A number of more established companies are also pursuing strategies to license or acquire products in the pharmaceutical field, and they may have a competitive advantage over us due to their size, cash resources and greater clinical development and commercialization capabilities. If we are unable to successfully complete acquisitions or in-licensing transactions for suitable products and product candidates, our prospects for growth could suffer.

Even if we are successful in completing one or more acquisitions, the failure to adequately address the financial, operational or legal risks of these transactions could harm our business. To finance an acquisition, we could be required to use our cash resources, issue potentially dilutive equity securities or incur or assume debt or contingent liabilities. Accounting for acquisitions can require impairment losses or restructuring charges, large write-offs of in-process research and development expense and ongoing amortization expenses related to other intangible assets. In addition, integrating acquisitions can be difficult, and could disrupt our business and divert management resources. If we are unable to manage the integration of any acquisitions successfully, our ability to develop new products and continue to expand our product pipeline may be impaired.

We may need substantial additional funding and be unable to raise capital when needed, which could force us to delay, reduce or abandon our commercialization efforts or product development programs.

We expect to incur significant commercialization expenses for product sales, marketing, manufacturing and distribution of AMITIZA. In addition, we expect our research and development expenses to increase in connection with our ongoing activities. We may need substantial additional funding and be unable to raise capital when needed or on attractive terms, which would force us to delay, reduce or abandon our commercialization efforts or development programs.

We have financed our operations and internal growth principally through private placements and a public offering of equity securities, payments received under our collaboration agreement with Takeda and milestone and other payments from Sucampo AG and R-Tech. We believe that our existing cash and cash equivalents and internally generated funds that we anticipate from AMITIZA product sales, will be sufficient to enable us to fund our operating expenses for the foreseeable future. Our future funding requirements, however, will depend on many factors, including:

- actual levels of AMITIZA product sales;
- the cost of commercialization activities, including product marketing, sales and distribution;

- the scope and results of our research, preclinical and clinical development activities;
- the timing of, and the costs involved in, obtaining regulatory approvals;
- the costs involved in obtaining and maintaining proprietary protection for our products, technology and know-how, including litigation costs and the results of such litigation;
- our ability to recruit and retain internal staff resources to conduct these activities;
- the extent to which we acquire or invest in businesses, products and technologies;
- the success of our collaboration with Takeda; and
- our ability to establish and maintain additional collaborations.

If we are required to raise additional funds from external sources, we might accomplish this through public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. If we raise additional funds by issuing equity securities, current stockholders may experience dilution. Debt financing, if available, may involve agreements that include covenants limiting or restricting our ability to take specific actions, such as incurring additional debt, making capital expenditures or declaring dividends. If we raise additional funds through collaboration and licensing arrangements with third parties, it may be necessary to relinquish valuable rights and related intellectual property to our technologies, research programs, products or product candidates.

Risks Related to Our Dependence on Third Parties, Including Related Parties

We have no manufacturing capabilities and are dependent upon R-Tech to manufacture and supply us with our product and product candidates. If R-Tech does not manufacture AMITIZA or our other product candidates in sufficient quantities, at acceptable quality levels and at acceptable cost and if we are unable to identify a suitable replacement manufacturer, our sales of AMITIZA and our further clinical development and commercialization of other products could be delayed, prevented or impaired.

We do not own or operate manufacturing facilities and have little experience in manufacturing pharmaceutical products. We currently rely, and expect to continue to rely, exclusively on R-Tech to supply Takeda and us with AMITIZA, cobiprostone and SPI-017 and any future prostone compounds that we may determine to develop or commercialize. We have granted R-Tech the exclusive right to manufacture and supply AMITIZA to meet our commercial and clinical requirements in the Americas, Europe, the Middle East and Africa until 2026, and we do not have an alternative source of supply for AMITIZA in these or any other territories. We also do not have an alternative source of supply for cobiprostone or SPI-017, which R-Tech manufactures and supplies to us. If R-Tech is not able to supply AMITIZA or these other compounds on a timely basis, in sufficient quantities and at acceptable levels of quality and price and if we are unable to identify a replacement manufacturer to perform these functions on acceptable terms, sales of AMITIZA would be significantly impaired and our development programs could be seriously jeopardized. In addition, we currently do not have a manufacture or supply arrangement for the supply of AMITIZA in Asia. Our ability to market and sell AMITIZA in Asia also would be significantly impaired if we are unable to enter into a supply and manufacture arrangement with R-Tech or another suitable manufacturer for the supply of AMITIZA in that territory.

The risks of relying solely on R-Tech for the manufacture of our products include:

- we rely solely on R-Tech for quality assurance and their continued compliance with regulations relating to the manufacture of pharmaceuticals;
- R-Tech's manufacturing capacity may not be sufficient to produce commercial quantities of our product, or to keep up with subsequent increases in the quantities necessary to meet potentially growing demand;
- R-Tech may not have access to the capital necessary to expand its manufacturing facilities in response to our needs;

- in light of the complexity of the manufacturing process for prostones, if R-Tech were to cease conducting business, or if its operations were to be interrupted, it would be difficult and time consuming for us to find a replacement supplier and the change would need to be submitted to and approved by the FDA;
- R-Tech has substantial proprietary know-how relating to the manufacture of prostones and, in the event we must find a replacement or supplemental manufacturer or we elect to contract with another manufacturer to supply us with products other than AMITIZA, we would need to transfer this know-how to the new manufacturer, a process that could be both time consuming and expensive to complete;
- R-Tech may experience events, such as a fire or natural disaster, that force it to stop or curtail production for an extended period; and
- R-Tech could encounter significant increases in labor, capital or other costs that would make it difficult for R-Tech to produce our products cost-effectively.

In addition, R-Tech currently uses one supplier for the primary ingredient used in the manufacture of prostones. R-Tech could experience delays in production should it become necessary to switch its source of supply for this ingredient to another supplier or to manufacture the ingredient itself.

Our current and anticipated future dependence upon R-Tech for the manufacture of our products and product candidates may adversely affect our future revenues, our cost structure and our ability to develop product candidates and commercialize any approved products on a timely and competitive basis. In addition, if R-Tech should cease to manufacture prostones for our clinical trials for any reason, we likely would experience delays in advancing these trials while we seek to identify and qualify replacement suppliers. We may be unable to obtain replacement supplies on a timely basis, on terms that are favorable to us or at all.

We and R-Tech are dependent upon a single contract manufacturer to complete the final stage of manufacture of AMITIZA.

R-Tech has subcontracted with a single contract manufacturer to encapsulate the bulk form AMITIZA supplied by R-Tech into gelatin capsules and to package the final product for distribution in the United States. If this subcontractor experiences difficulties or delays in performing these services for any reason, our ability to deliver adequate supplies of finished product to physicians and patients will be impaired during the period in which R-Tech seeks a replacement manufacturer, which could cause us to lose revenues. In addition, any change in the party providing encapsulation of AMITIZA would need to be approved by the FDA, and any change in the party packaging the product would need to be submitted to and reviewed by the FDA, which could increase the time required to replace this subcontractor should that become necessary.

R-Tech and any other third-party manufacturer of our products and product candidates are subject to significant regulations governing manufacturing facilities and procedures.

R-Tech, R-Tech's subcontractors and suppliers and any other potential manufacturer of our products or product candidates may not be able to comply with the FDA's cGMP regulations, other U.S. regulations or similar regulatory requirements in force outside the United States. These regulations govern manufacturing processes and procedures and the implementation and operation of systems to control and assure the quality of products approved for sale. In addition, the FDA or other regulatory agencies outside the United States may at any time audit or inspect a manufacturing facility to ensure compliance with cGMP or similar regulations. Our failure, or the failure of R-Tech, R-Tech's subcontractors and suppliers or any other third-party manufacturer we use, to comply with applicable manufacturing regulations could result in sanctions being imposed on us, including fines, injunctions, civil penalties, failure of regulatory authorities to grant marketing approval of our product candidates, delays, suspension or withdrawal of approvals, license revocation, seizures or recalls of product candidates or products, operating restrictions and criminal prosecutions, any of which could significantly and adversely affect supplies of our products and product candidates.

If it were to become necessary for us to replace R-Tech as contract manufacturer of our product and product candidates, we would compete with other products for access to appropriate manufacturing facilities and the change

would need to be submitted to and approved by the FDA. Among manufacturers that operate under cGMP regulations, there are a limited number that would be both capable of manufacturing for us and willing to do so.

We depend significantly on our collaboration with Takeda, and may depend in the future on collaborations with other third parties, to develop and commercialize our product candidates.

A key element of our business strategy is to collaborate where appropriate with third parties, particularly leading pharmaceutical companies, to develop, commercialize and market our products and product candidates. We are currently party to a 16-year joint collaboration and license agreement with Takeda for the development and commercialization of AMITIZA for gastrointestinal indications in the United States and Canada.

Our agreement with Takeda provides that it may be terminated by either party if we fail to receive marketing approval from the FDA for AMITIZA for the treatment of irritable bowel syndrome with constipation and if we and Takeda do not thereafter agree on an alternative development and commercialization strategy. If Takeda were to terminate the agreement under these conditions, we would likely realize significantly lower revenues from sales of AMITIZA for the treatment of chronic idiopathic constipation until we could find a replacement marketing organization or develop our own, and our ability to continue our development program for AMITIZA for other gastrointestinal indications could be seriously compromised. In addition, if we fail to receive marketing approval from the FDA for this indication, we might not receive up to $60.0 million of development milestone payments that Takeda is obligated to pay us upon our achievement of future regulatory milestones relating to AMITIZA. We also might not receive up to $50.0 million of commercial milestone payments that Takeda is obligated to pay us upon the achievement of specified targets for annual net sales revenue from AMITIZA in the United States and Canada.

The success of our collaboration arrangement will depend heavily on the efforts and activities of Takeda. The risks that we face in connection with this collaboration, and that we anticipate being subject to in any future collaborations, include the following:

- our joint collaboration agreement with Takeda is, and any future collaboration agreements that we may enter into are likely to be, subject to termination under various circumstances;
- Takeda and other future collaborators may develop and commercialize, either alone or with others, products and services that are similar to or competitive with the products that are the subject of the collaboration with us;
- Takeda and other future collaborators may underfund or not commit sufficient resources to the testing, marketing, distribution or other development of our products or may use committed resources inefficiently;
- Takeda and other future collaborators may not properly maintain or defend our intellectual property rights or may utilize our proprietary information in such a way as to invite litigation that could jeopardize or invalidate our proprietary information or expose us to potential liability; and
- Takeda and other future collaborators may change the focus of their development and commercialization efforts. Pharmaceutical and biotechnology companies historically have re-evaluated their priorities from time to time, including following mergers and consolidations, which have been common in recent years in these industries.

The ability of our products and product candidates to reach their potential could be limited if Takeda or any other future collaborators decrease or fail to increase spending relating to such products, fail to dedicate sufficient resources to promoting our products or change their business focus.

Because we rely upon third parties to provide the sales representatives marketing AMITIZA, we may face increased risks arising from their misconduct or improper activities, which would harm our business.

Because we will have only limited capacity to monitor the sales efforts of Takeda's sales force, we may be exposed to increased risks arising from any misconduct or improper activities of these sales representatives, including the potential off-label promotion of our products or their failure to adhere to standard requirements in connection with product promotion. In addition, we will be exposed to similar risks arising from our previous use of Ventiv's employees to market AMITIZA. Although we amended our agreement with Ventiv and ceased to use Ventiv's employees effective July 1, 2007, any misconduct or inappropriate activities by Ventiv employees prior to

termination could create future liabilities for us, and any misconduct or inappropriate activities might not come to light for an extended period after the termination. Any such improper activities could hurt our reputation, cause us to become subject to significant liabilities and otherwise harm our business.

We may not be successful in establishing additional collaborations, which could compromise our ability to develop and commercialize products.

If we are unable to reach new agreements with suitable collaborators, we may fail to meet our business objectives for the affected product or program. We face significant competition in seeking appropriate collaborators. Moreover, these collaboration arrangements are complex and time-consuming to negotiate and document. We may not be successful in our efforts to establish additional collaborations or other alternative arrangements. The terms of any additional collaborations or other arrangements that we establish may not be as favorable to us as we anticipate. Moreover, these collaborations or other arrangements may not be successful.

We rely on third parties to conduct our clinical trials and those third parties may not perform satisfactorily or may fail to meet established deadlines for the completion of these trials.

We generally do not have the independent ability to conduct clinical trials for our product candidates. We rely on third parties, such as contract research organizations, clinical data management organizations, medical institutions, and clinical investigators, to perform this function. For example, approximately 130 separate clinical investigators participated in our trials for irritable bowel syndrome with constipation. We use multiple contract research organizations to coordinate the efforts of our clinical investigators and to accumulate the results of our trials. Our reliance on these third parties for clinical development activities reduces our control over these activities. Furthermore, these third parties may also have relationships with other entities, some of which may be our competitors. If these third parties do not carry out their contractual duties or meet expected deadlines, we will be delayed in obtaining, or may not be able to obtain, regulatory approvals for our product candidates and will be delayed in our efforts to, or may not be able to, successfully commercialize our product candidates.

In addition, we are responsible for ensuring that each of our clinical trials is conducted in accordance with the general investigational plan and protocols for the trial. The FDA requires us to comply with standards, commonly referred to as good clinical practices, for conducting and recording and reporting the results of clinical trials to assure that data and reported results are credible and accurate and that the rights, integrity and confidentiality of trial participants are protected. Our reliance on third parties that we do not control does not relieve us of these responsibilities and requirements.

Conflicts of interest may arise between Sucampo AG or R-Tech and us, and these conflicts might ultimately be resolved in a manner unfavorable to us.

Our founders, Dr. Sachiko Kuno and Dr. Ryuji Ueno, together wholly own Sucampo AG and own a majority of the stock of R-Tech. Drs. Kuno and Ueno are married to each other. Ownership interests of our founders in the stock of R-Tech or Sucampo AG, and Dr. Ueno's service as a director and executive officer of our company, could give rise to conflicts of interest when faced with a decision that could favor the interests of one of the affiliated companies over another. In addition, conflicts of interest may arise with respect to existing or possible future commercial arrangements between us and R-Tech or Sucampo AG in which the terms and conditions of the arrangements are subject to negotiation or dispute. For example, conflicts of interest could arise over matters such as:

- disputes over the cost or quality of the manufacturing services provided to us by R-Tech with respect to AMITIZA, cobiprostone and SPI-017;
- a decision whether to engage R-Tech in the future to manufacture and supply compounds other than AMITIZA, cobiprostone and SPI-017
- decisions as to which particular prostone compounds, other than AMITIZA, cobiprostone or SPI-017, we will commit sufficient development efforts to so that commercial rights to those compounds will not revert back to Sucampo AG at the end of the specified period; or
- business opportunities unrelated to prostones that may be attractive both to us and to the other company.

If United States or foreign tax authorities disagree with our transfer pricing policies, we could become subject to significant tax liabilities.

We are a member of an affiliated group of entities, including Sucampo AG and R-Tech, each of which is directly or indirectly controlled by Drs. Ueno and Kuno. We have had and will continue to have significant commercial transactions with these entities. Furthermore, we operate two foreign subsidiaries, Sucampo Japan and Sucampo Europe. We expect to enter into commercial transactions with each of these entities on an ongoing basis. As a result of these transactions, we will be subject to complex transfer pricing regulations in both the United States and the other countries in which we and our affiliates operate. Transfer pricing regulations generally require that, for tax purposes, transactions between our subsidiaries and affiliates and us be priced on a basis that would be comparable to an arm's length transaction and that contemporaneous documentation be maintained to support the related party agreements. To the extent that United States or any foreign tax authorities disagree with our transfer pricing policies, we could become subject to significant tax liabilities and penalties related to prior, existing and future related party agreements.

Risks Related to Our Intellectual Property

If we are unable to obtain and maintain proprietary protection for the intellectual property relating to our technology and products, the value of our technology and products will be adversely affected and our ability to derive revenue from our products would be impaired.

Our success depends in part on our ability, and that of Sucampo AG, to obtain and maintain proprietary protection for the technology and know-how upon which our products are based, to operate without infringing on the proprietary rights of others and to prevent others from infringing on our proprietary rights. The patent positions of companies like ours are generally uncertain and involve complex legal and factual questions. Our ability to maintain and solidify our proprietary position for our intellectual property will depend on our success, in conjunction with Sucampo AG, in obtaining effective claims and enforcing those claims once granted. The scope of protection afforded by a set of patent claims is subject to inherent uncertainty unless the patent has already been litigated and a court has ruled on the meaning of the claim language and other issues affecting how broadly a patent claim can be enforced. In some cases, we license patent applications from Sucampo AG instead of issued patents, and we do not know whether these patent applications will result in the issuance of any patents. Our licensed patents may be challenged, invalidated or circumvented, which could limit the term of patent protection for our products or diminish our ability to stop competitors from marketing related products. In addition, changes in either patent laws or in interpretations of patent laws in the United States and other countries may diminish the value of Sucampo AG's patents and our intellectual property or narrow the scope of the protection provided by these patents. Accordingly, we cannot determine the degree of future protection for our proprietary rights in the licensed patents and patent applications. Furthermore, because of the extensive time required for development, testing and regulatory review of a potential product, it is possible that, before any of our product candidates can be commercialized, a related patent may expire or may remain in force for only a short period following commercialization, thereby reducing any advantage of the patent.

The patents we license from Sucampo AG also may not afford us protection against competitors with similar technology. Because patent applications in the United States and many foreign jurisdictions are typically not published until 18 months after filing, or in some cases not at all, and because publications of discoveries in the scientific literature often lag behind actual discoveries, neither we nor Sucampo AG can be certain that we or they were the first to make the inventions claimed in issued patents or pending patent applications, or that we or they were the first to file for protection of the inventions set forth in these patent applications.

Confidentiality agreements with our employees and other precautions may not be adequate to prevent disclosure of our proprietary information and know-how.

In addition to patented technology, we rely upon unpatented proprietary technology, processes and know-how developed both by Sucampo AG and by us. We and Sucampo AG seek to protect our respective proprietary technology and processes, in part, by confidentiality agreements with our respective employees, consultants, scientific advisors and contractors. We also seek to preserve the integrity and confidentiality of our data and trade

secrets by maintaining physical security of our premises and physical and electronic security of our information technology systems. These agreements or security measures may be breached, and we and Sucampo AG may not have adequate remedies for any such breach. In addition, our trade secrets may otherwise become known or be independently developed by competitors. If we or Sucampo AG are unable to protect the confidentiality of our proprietary information and know-how, competitors may be able to use this information to develop products that compete with our products, which could compromise our ability to produce revenue and achieve profitability.

If we infringe or are alleged to infringe intellectual property rights of third parties, our business could be harmed.

There has been substantial litigation and other proceedings regarding patent and other intellectual property rights in the pharmaceutical and biotechnology industries. Our research, development and commercialization activities and those of Sucampo AG, as well as any products or product candidates resulting from these activities, may infringe or be alleged to infringe patents or patent applications owned or controlled by other parties. These third parties could bring claims against us or one of our collaborators that would require us to incur substantial expenses and, if successful against us, could cause us to pay substantial damages. Further, if a patent infringement suit were brought against us or one of our collaborators, we or they could be forced to stop or delay research, development, manufacturing or sales of the product or product candidate that is the subject of the suit.

As a result of patent infringement claims, or in order to avoid potential claims, we or one of our collaborators may choose or be required to seek a license from a third party and be required to pay license fees or royalties or both. These licenses may not be available on acceptable terms, or at all. Even if we or a collaborator were able to obtain a license, the rights may be nonexclusive, which could result in our competitors gaining access to the same intellectual property. Ultimately, we could be prevented from commercializing a product, or be forced to cease some aspect of our business operations, if, as a result of actual or threatened patent infringement claims, we or one of our collaborators are unable to enter into licenses on acceptable terms. This could harm our business significantly.

We may be subject to other patent related litigation or proceedings that could be costly to defend and uncertain in their outcome.

In addition to infringement claims against us, we may become a party to other patent litigation and proceedings, including interference proceedings declared by the United States Patent and Trademark Office or opposition proceedings in the European Patent Office regarding intellectual property rights with respect to our products and technology, as well as other disputes with licensees, licensors or others with whom we have contractual or other business relationships for intellectual property. The cost to us of any patent litigation or other proceeding, even if resolved in our favor, could be substantial. Some of our competitors may be able to sustain the costs of such litigation or proceedings more effectively than we can because of their substantially greater financial resources. Uncertainties resulting from the initiation and continuation of patent litigation or other proceedings could negatively affect our ability to compete in the marketplace. Patent litigation and other proceedings may also absorb significant management resources.

Risks Related to Regulatory Approval and Oversight

If we are not able to obtain required regulatory approvals, we will not be able to commercialize our product candidates and our ability to generate revenue will be materially impaired.

Our product candidates and the activities associated with their development and commercialization, including testing, manufacture, safety, efficacy, recordkeeping, labeling, storage, approval, advertising, promotion, sale and distribution, are subject to comprehensive regulation by the FDA and other regulatory agencies in the United States and by authorities in other countries. Failure to obtain regulatory approval for a product candidate will prevent us from commercializing the product candidate.

Securing FDA approval requires the submission of extensive preclinical and clinical data, information about product manufacturing processes and inspection of facilities and supporting information to the FDA for each therapeutic indication to establish the product candidate’s safety and efficacy. Our future products may not be

effective, may be only moderately effective or may prove to have undesirable side effects, toxicities or other characteristics that may preclude our obtaining regulatory approval or prevent or limit commercial use.

The process of obtaining regulatory approvals is expensive, often takes many years, if approval is obtained at all, and can vary substantially based upon the type, complexity and novelty of the product candidates involved. Changes in the regulatory approval policy during the development period, changes in or the enactment of additional statutes or regulations, or changes in regulatory review for each submitted product application, may cause delays in the approval or rejection of an application. The FDA has substantial discretion in the approval process and may refuse to accept any application or may decide that our data are insufficient for approval and require additional preclinical, clinical or other studies. In addition, varying interpretations of the data obtained from preclinical and clinical testing could delay, limit or prevent regulatory approval of a product candidate. Any regulatory approval we ultimately obtain may be limited in scope or subject to restrictions or post-approval commitments that render the product not commercially viable. If any regulatory approval that we obtain is delayed or is limited, we may decide not to commercialize the product candidate after receiving the approval.

Even if we receive regulatory approval for a product, the product could be subject to regulatory restrictions or withdrawal from the market, and we may be subject to penalties if we fail to comply with ongoing regulatory requirements.

AMITIZA and any other product for which we obtain marketing approval, along with the manufacturing processes, post-approval clinical data, labeling, advertising and promotional activities for such product, will be subject to continual requirements of and review by the FDA and other regulatory bodies. These requirements include submissions of safety and other post-marketing information and reports, registration requirements, cGMP requirements relating to quality control, quality assurance and corresponding maintenance of records and documents, requirements regarding the distribution of samples to physicians and recordkeeping. Even if regulatory approval of a product is granted, the approval may be subject to limitations on the indicated uses for which the product may be marketed or to the conditions of approval, or contain requirements for costly post-marketing testing and surveillance to monitor the safety or efficacy of the product. If we fail to comply with applicable regulatory requirements, we may be subject to fines, suspension or withdrawal of regulatory approvals, product recalls, seizure of products, operating restrictions and criminal prosecution.

We may experience unanticipated safety issues with our products after they are approved for marketing, which could harm our business and our reputation.

Because AMITIZA and our other product candidates are based on newly discovered prostone technology with novel mechanisms of action, there may be long-term safety risks associated with these products that are not identifiable or well-understood at early stages of development and commercialization. Later discovery of previously unknown problems with our products, manufacturers or manufacturing processes may result in:

- restrictions on such products, manufacturers or manufacturing processes;
- warning letters;
- withdrawal of the products from the market;
- refusal to approve pending applications or supplements to approved applications that we submit; and
- voluntary or mandatory product recalls.

Because we rely on Takeda to provide a significant portion of the sales force that is selling AMITIZA, we are dependent to some degree on Takeda to promptly and properly report any safety issues encountered in the field. If Takeda or their sales representatives fail to provide timely and accurate reporting of any safety issues that arise in connection with AMITIZA, our business and reputation could be harmed.

Failure to obtain regulatory approval in international jurisdictions would prevent us from marketing our products outside the United States and could adversely affect our reputation and our product marketing activities within the United States.

We intend to market our products both domestically and outside the United States. In order to market our products in the European Union, Japan and many other foreign jurisdictions, we must obtain separate regulatory approvals and comply with numerous and varying regulatory requirements. The approval procedure varies among countries and can involve additional testing. The time required to obtain approval may differ from that required to obtain FDA approval. The foreign regulatory approval process may include all of the risks associated with obtaining FDA approval. We may not obtain foreign regulatory approvals on a timely basis, if at all. Approval by the FDA does not ensure approval by regulatory authorities in other countries or jurisdictions, and approval by one foreign regulatory authority does not ensure approval by regulatory authorities in other foreign countries or jurisdictions or by the FDA. We may not be able to file for regulatory approvals and may not receive necessary approvals to commercialize our products in any market.

We may not be able to obtain orphan drug exclusivity for our product candidates. If our competitors are able to obtain orphan drug exclusivity for a product that is competitive with one or more of our product candidates and we cannot show that our product candidate is clinically superior, we may not be able to have competing products approved by the applicable regulatory authority for a significant period of time.

Regulatory authorities in some jurisdictions, including Europe and the United States, may designate drugs that target relatively small patient populations as orphan drugs. We have received an orphan drug designation from the FDA for our product candidate cobiprostone for the treatment of disorders associated with cystic fibrosis and we may pursue orphan drug designation for additional product candidates. Generally, if a product with an orphan drug designation subsequently receives the first marketing approval for the indication for which it has such designation, the product is entitled to a period of marketing exclusivity. The exclusivity applies only to the indication for which the drug has been designated and approved. The applicable exclusivity period is seven years in the United States, but this period may be interrupted if a sponsor of a competitive product that is otherwise the same drug for the same use can show that its drug is clinically superior to our orphan drug candidate. The European exclusivity period is ten years, but may be reduced to six years if a drug no longer meets the criteria for orphan drug designation, including where it is shown that the drug is sufficiently profitable so that market exclusivity is no longer justified. In addition, European regulations establish that a competitor's marketing authorization for a similar product with the same indication may be granted if there is an insufficient supply of the product or if another applicant can establish that its product is safer, more effective or otherwise clinically superior. If a competitor obtains orphan drug exclusivity for a product competitive with cobiprostone before we do and if the competitor's product is the same drug with the same indication as ours, we would be excluded from the market, unless we can show that our drug is safer, more effective or otherwise clinically superior. Even if we obtain orphan drug exclusivity for cobiprostone for these indications, we may not be able to maintain it if a competitor with a product that is otherwise the same drug can establish that its product is clinically superior.

We must comply with federal, state and foreign laws, regulations, and other rules relating to the health care business, and, if we are unable to fully comply with such laws, regulations and other rules, we could face substantial penalties.

We are or will be directly, or indirectly through our customers, subject to extensive regulation by the federal government, the states and foreign countries in which we may conduct our business. The laws that directly or indirectly affect our ability to operate our business include the following:

- the federal Medicare and Medicaid Anti-Kickback law, which prohibits persons from knowingly and willfully soliciting, offering, receiving or providing remuneration, directly or indirectly, in cash or in kind, to induce either the referral of an individual, or furnishing or arranging for a good or service, for which payment may be made under federal healthcare programs such as the Medicare and Medicaid Programs;
- other Medicare laws, regulations, rules, manual provisions and policies that prescribe the requirements for coverage and payment for services performed by our customers, including the amount of such payment;

- the federal False Claims Act, which imposes civil and criminal liability on individuals and entities who submit, or cause to be submitted, false or fraudulent claims for payment to the government;
- the federal False Statements Act, which prohibits knowingly and willfully falsifying, concealing or covering up a material fact or making any materially false statement in connection with the delivery of or payment for healthcare benefits, items or services; and
- state and foreign law equivalents of the foregoing and state laws regarding pharmaceutical company marketing compliance, reporting and disclosure obligations.

If our operations are found to be in violation of any of the laws, regulations, rules or policies described above or any other law or governmental regulation to which we or our customers are or will be subject, or if the interpretation of the foregoing changes, we may be subject to civil and criminal penalties, damages, fines, exclusion from the Medicare and Medicaid programs and the curtailment or restructuring of our operations. Similarly, if our customers are found non-compliant with applicable laws, they may be subject to sanctions, which could also have a negative impact on us. Any penalties, damages, fines, curtailment or restructuring of our operations would harm our ability to operate our business and our financial results. The risk of our being found in violation of these laws is increased by the fact that many of them have not been fully interpreted by the regulatory authorities or the courts, and their provisions may be open to a variety of interpretations. Any action against us for violation of these laws, even if we successfully defend against it, could cause us to incur significant legal expenses, divert management resources from the operation of our business and damage our reputation.

Risks Related to Our Common Stock

Our founders maintain the ability to control all matters submitted to stockholders for approval, which could result in actions of which you or other stockholders do not approve.

Dr. Sachiko Kuno, who was an executive officer and director of our company until May 31, 2007, and Dr. Ryuji Ueno, our chief executive officer, chief scientific officer and a director, together beneficially own 2,426,385 shares of class A common stock and 26,191,050 shares of class B common stock, representing approximately 95% of the combined voting power of our outstanding common stock. As a result, Drs. Ueno and Kuno, who are married, acting by themselves will be able to control the outcome of all matters that our stockholders vote upon, including the election of directors, amendments to our certificate of incorporation, and mergers or other business combinations. The concentration of ownership and voting power also may have the effect of delaying or preventing a change in control of our company and could prevent stockholders from receiving a premium over the market price if a change in control is proposed.

Provisions in our corporate charter documents and under Delaware law may prevent or frustrate attempts by our stockholders to change our management and hinder efforts to acquire a controlling interest in us, and the market price of our class A common stock may be lower as a result.

There are provisions in our certificate of incorporation and by-laws that may make it difficult for a third party to acquire, or attempt to acquire, control of our company, even if a change in control was considered favorable by you and other stockholders. For example, our board of directors has the authority to issue up to 5,000,000 shares of preferred stock. The board of directors can fix the price, rights, preferences, privileges, and restrictions of the preferred stock without any further vote or action by our stockholders. The issuance of shares of preferred stock may delay or prevent a change in control transaction. As a result, the market price of our class A common stock and the voting and other rights of our stockholders may be adversely affected. An issuance of shares of preferred stock may result in the loss of voting control to other stockholders.

Our charter documents contain other provisions that could have an anti-takeover effect, including:

- the high-vote nature of our class B common stock;
- following the conversion of all shares of class B common stock into class A common stock, only one of our three classes of directors will be elected each year;

- following the conversion of all shares of class B common stock into class A common stock, stockholders will not be entitled to remove directors other than by a 75% vote and for cause;
- following the conversion of all shares of class B common stock into class A common stock, stockholders will not be permitted to take actions by written consent;
- stockholders cannot call a special meeting of stockholders; and
- stockholders must give advance notice to nominate directors or submit proposals for consideration at stockholder meetings.

In addition, we are subject to the anti-takeover provisions of Section 203 of the Delaware General Corporation Law, which regulates corporate acquisitions. These provisions could discourage potential acquisition proposals and could delay or prevent a change in control transaction. They could also have the effect of discouraging others from making tender offers for our class A common stock. These provisions may also prevent changes in our management.

Our class A common stock is thinly traded and our stock price is volatile; investors in our class A common stock could incur substantial losses.

The public trading market for our class A common stock is characterized by small trading volumes and a highly volatile stock price. The stock market in general and the market for pharmaceutical and biotechnology companies in particular have experienced extreme volatility that has often been unrelated to the operating performance of particular companies. As a result of this volatility, investors may not be able to sell their class A common stock at or above the price they paid, and may have difficulty selling their shares at any price. The market price for our class A common stock may be influenced by many factors, including:

- failure of AMITIZA or other approved products, if any, to achieve commercial success;
- results of clinical trials of our product candidates or those of our competitors;
- the regulatory status of our product candidates;
- the success of competitive products or technologies;
- regulatory developments in the United States and foreign countries;
- developments or disputes concerning patents or other proprietary rights;
- the ability of R-Tech to manufacture our products to commercial standards in sufficient quantities;
- actual or anticipated fluctuations in our quarterly financial results;
- variations in the financial results of companies that are perceived to be similar to us;
- changes in the structure of healthcare payment systems;
- market conditions in the pharmaceutical and biotechnology sectors and issuance of new or changed securities analysts' reports or recommendations; and
- general economic, industry and market conditions.

We have never paid cash dividends on our capital stock, and we do not anticipate paying any cash dividends in the foreseeable future.

We have paid no cash dividends on our capital stock to date. We currently intend to retain our future earnings, if any, to fund the development and growth of our business. In addition, the terms of any existing or future debt agreements may preclude us from paying dividends. As a result, capital appreciation, if any, of our class A common stock will be your sole source of gain for the foreseeable future.

A significant portion of our total outstanding shares are eligible to be sold into the market. This could cause the market price of our class A common stock to drop significantly, even if our business is doing well.

Sales of a substantial number of shares of our class A common stock in the public market could occur at any time. If our stockholders sell, or the market perceives that our stockholders intend to sell, substantial amounts of our class A common stock in the public market, the market price of our class A common stock could decline significantly. Virtually all of our outstanding shares of common stock are eligible to be resold in the public markets, including approximately 37.5 million shares that first became available for sale in the public market in February 2008 following the expiration of lock-up agreements between our stockholders and the underwriters of our public offering, subject in some cases to volume limitations imposed by federal securities laws. Moreover, holders of an aggregate of 6,751,609 shares of our common stock have rights, subject to some conditions, to require us to file registration statements covering their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. We also registered the 13,900,900 shares of class A common stock that we may issue in the future under our equity compensation plans, and they can be freely sold in the public market upon issuance.

Due to recent uncertainties in the credit markets, we may be unable to liquidate some holdings of our auction rate securities and as a result, may suffer losses from these investments. In addition, given the complexity of auction rate securities and their valuations, our estimates of their fair value may differ from the actual amount we would be able to collect in an ultimate sale.

As of December 31, 2007, we had $60.9 million invested in auction rate securities. Auction rate securities are long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every seven to 49 days. This mechanism generally allows existing investors to roll-over their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par value and therefore are usually classified within current assets.

We generally invest in auction rate securities for short periods of time as part of our cash management program. Recent uncertainties in the credit markets have prevented us from liquidating some of our holdings of auction rate securities subsequent to December 31, 2007 because the amount of securities submitted for sale during the auction exceeded the amount of purchase orders. In one instance, the first auction after year-end failed as to one security we hold in the amount of $9.4 million. In other instances, we experienced successful auctions shortly after December 31, 2007, but then encountered subsequent failed auctions in February and March 2008 in an aggregate amount of $18.3 million.

As of March 20, 2008, we had reduced our investment in auction rate securities by selling $33.2 million of investments at par value. We continue to hold the remaining securities and are due interest at a higher rate on those securities as to which the auctions have failed than similar securities for which auctions have cleared. These investments consist of AAA-rated non-mortgage related auction rate securities and are insured against loss of principal and interest by bond insurers whose AAA ratings are under review. If the credit ratings of the issuer, the bond insurer or the collateral deteriorate or the carrying value of the investments decline for any other reason, we may need to adjust the carrying value of these investments.

It is uncertain as to when the liquidity issues relating to these investments will improve. Although we do not currently anticipate having to sell these securities in order to operate our business, if that were to change, or if the liquidity issues continue over a prolonged period, we might be unable to liquidate some holdings of our auction rate securities and as a result, might suffer losses from these investments. In addition, given the complexity of auction rate securities and their valuations, our estimates of their fair value may differ from the actual amount we would be able to collect in an ultimate sale.

ITEM 1B. ***UNRESOLVED STAFF COMMENTS***

None.

ITEM 2. ***PROPERTIES***

Our corporate headquarters, including our principal executive officers, and some of our commercial, administrative and research and development activities, are located in Bethesda, Maryland. Our lease for this facility, which comprises approximately 25,000 square feet of office space, expires in February 2017. In addition, we have a short-term lease in Fuquay-Varina, North Carolina to house our national sales office.

In July 2007, we vacated our previous headquarters in Bethesda, Maryland. We were able to sublease 1,600 square feet of space under a lease that expires in December 2010 and are seeking to sublease 11,166 square feet of space under a lease that expires in November 2009. We remain obligated to make rent payments under both leases.

We lease our Asian and European headquarters, located in Tokyo and Osaka, Japan and Oxford, England, under short-term leases.

We believe that our current facilities are sufficient to meet our needs for at least the next 12 months.

ITEM 3. ***LEGAL PROCEEDINGS***

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

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

No matters were submitted to a vote of security holders during the quarter ended December 31, 2007.

PART II

ITEM 5. ***MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS, AND ISSUER PURCHASES OF EQUITY SECURITIES***

Our class A common stock is traded on The NASDAQ Global Market under the symbol "SCMP". The following table sets forth, for the periods indicated, the range of high and low sale prices of our class A common stock as reported on The NASDAQ Global Market since our initial public offering on August 2, 2007.

2007	High	Low
Third quarter (beginning August 2, 2007, our initial public offering date)	$ 14.50	$ 10.75
Fourth quarter	$ 19.75	$ 10.16

As of March 20, 2008, we had 15,542,768 shares of class A common stock outstanding held by approximately 19 stockholders of record. The number of holders of record of our class A common stock is not representative of the number of beneficial holders because many shares are held by depositories, brokers or nominees. As of March 20, 2008, the closing price of our class A common stock was $9.74. As of March 20, 2008, we had 26,191,050 shares of class B common stock outstanding held by one stockholder of record.

We have never declared or paid any cash dividends on our common stock. We currently intend to retain earnings, if any, to support our growth strategy and do not anticipate paying cash dividends in the foreseeable future.

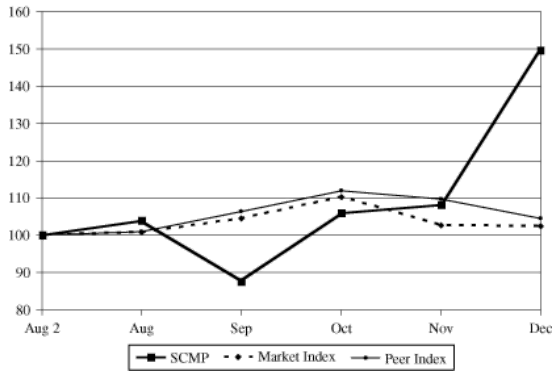
We did not repurchase any of our equity securities in 2007.

The equity compensation plan information required under this Item is incorporated by reference to the information provided under the heading "Equity Compensation Plan Information" in our proxy statement to be filed within 120 days after the fiscal year end of December 31, 2007.

Stock Performance Graph

The information included under this heading "Stock Performance Graph" is "furnished" and not "filed" and shall not be deemed to be "soliciting material" or subject to Regulation 14A, shall not be deemed "filed" for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or the Exchange Act, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended, or the Exchange Act.

The following graph compares the cumulative total return, assuming the investment of $100 on August 2, 2007, the date on which our class A common stock began trading on The NASDAQ Global Market, in each of (1) our class A common stock, (2) The NASDAQ Composite Index (U.S. and Foreign) and (3) the NASDAQ Pharmaceutical Index, assuming reinvestment of any dividends. These comparisons are required by the SEC and are not intended to forecast or be indicative of possible future performance of our class A common stock.



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, 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 6. ***SELECTED CONSOLIDATED FINANCIAL DATA***

We have derived the following consolidated financial data as of December 31, 2005, 2006 and 2007 from audited balance sheets and for the five years ended December 31, 2007 from audited consolidated statements of operations. Consolidated balance sheets as of December 31, 2006 and 2007 and the related consolidated statements of operations and comprehensive income (loss), of changes in stockholders' equity (deficit) and of cash flows for each of the three years in the period ended December 31, 2007 and notes thereto appear elsewhere in this Annual Report. We have derived the following consolidated financial data as of and for the years ended December 31, 2003 and 2004 from unaudited consolidated balance sheets and audited consolidated statements of operations, which are not included in this Annual Report. The information set forth below is not necessarily indicative of the results of future operations and should be read in conjunction with Item 7, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and the consolidated financial statements and related footnotes appearing elsewhere in this Annual Report on Form 10-K.

	Year Ended December 31,				
(In thousands, except per share data)	**2003**	**2004**	**2005**	**2006**	**2007**
Statement of operations data					
Revenues	$ 4,125	$ 3,839	$ 40,205	$ 59,266	$ 91,891
Operating expenses:					
Research and development	18,445	14,036	31,167	16,392	28,334
General and administrative	7,447	8,216	7,760	14,587	25,031
Selling and marketing	—	—	295	11,103	13,229
Product royalties — related parties	—	—	—	1,171	4,890
Milestone royalties — related parties	—	1,000	1,500	1,250	2,000
Total operating expenses	25,892	23,252	40,722	44,503	73,484
(Loss) income from operations	(21,767)	(19,413)	(517)	14,763	18,407
Total non-operating (expense) income, net	(250)	(56)	990	2,141	2,616
(Loss) income before income taxes	(22,017)	(19,469)	473	16,904	21,023
Income tax (provision) benefit	—	—	(789)	4,897	(7,833)
Net (loss) income	$ (22,017)	$ (19,469)	$ (316)	$ 21,801	$ 13,190

(In thousands, except per share data)	Year Ended December 31, 2003	2004	2005	2006	2007
Basic net (loss) income per share	$ (0.68)	$ (0.60)	$ (0.01)	$ 0.63	$ 0.35
Diluted net (loss) income per share	$ (0.68)	$ (0.60)	$ (0.01)	$ 0.63	$ 0.35
Weighted average common shares outstanding — basic	32,564	32,600	32,601	34,383	37,778
Weighted average common shares outstanding — diluted	32,564	32,600	32,601	34,690	38,226

(In thousands)	As of December 31, 2003 (Unaudited)	2004 (Unaudited)	2005	2006	2007
Balance sheet data:					
Cash and cash equivalents	$ 19,070	$ 21,918	$ 17,436	$ 22,481	$ 25,559
Short-term investments	—	3,000	28,435	29,399	51,552
Working capital	14,834	7,850	10,051	40,623	84,313
Total assets	20,072	25,837	47,985	67,084	110,027
Notes payable — related parties, current	271	4,040	848	—	—
Notes payable — related parties, net of current portion	3,352	2,326	2,546	—	—
Total liabilities	14,196	39,375	58,225	28,551	23,499
Convertible preferred stock	20,288	20,288	20,288	20,288	—
Accumulated deficit	(25,382)	(44,852)	(45,167)	(23,366)	(10,176)
Total stockholders' equity (deficit)	5,876	(13,538)	(10,240)	38,533	86,528

ITEM 7. *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS*

You should read the following discussion and analysis together with our consolidated financial statements and the related notes included elsewhere in this Annual Report on Form 10-K. This discussion contains forward-looking statements that are based on our current expectations, estimates and projections about our business and operations. Our actual results may differ materially from those currently anticipated and expressed in such forward-looking statements as a result of a number of factors, including those we discuss under Item 1A — "Risk Factors" and elsewhere in this Annual Report.

Overview

We are a specialty biopharmaceutical 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 FDA for our first product, AMITIZA, for the treatment of chronic idiopathic constipation in adults.

We are party to a collaboration and license agreement and a related supplemental agreement with Takeda, or, collectively, the Takeda Agreements, to jointly develop and commercialize AMITIZA for chronic idiopathic constipation, irritable bowel syndrome with constipation, opioid-induced bowel dysfunction 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 Agreements, 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. We have historically incurred operating losses and, as of December 31, 2007, we had an accumulated deficit of $10.2 million. We recognized net income of $13.2 million and $21.8 million in 2007 and 2006, respectively, and net losses of $316,000 in 2005. 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 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. AMITIZA, cobiprostone and SPI-017 are covered by perpetual licenses that cannot be terminated unless we default in our payment obligations to Sucampo AG. If we have not committed specified development efforts to any prostone compound other than AMITIZA, 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. Ryuji Ueno and Sachiko Kuno, our founders and controlling stockholders, 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.

In August 2007, we completed our initial public offering, consisting of 3,125,000 shares of class A common stock sold by us, 625,000 shares of class A common stock sold by a stockholder and 562,500 shares of class A common stock sold under an overallotment option by S&R, at a public offering price of $11.50 per share, resulting in gross proceeds to us of approximately $35.9 million. After deducting underwriters' discounts and commissions and expenses of the offering, including costs of $3.1 million incurred in 2006, we raised net proceeds of $28.2 million.

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 irritable bowel syndrome with constipation and opioid-induced bowel dysfunction. We recently completed two pivotal Phase III clinical trials of AMITIZA for the treatment of irritable bowel syndrome with constipation 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 for AMITIZA in June 2007 and we expect a PDUFA action in late April 2008. In addition, we commenced Phase III pivotal clinical trials of AMITIZA for the treatment of opioid-induced bowel dysfunction in September 2007. Our collaboration and co-promotion arrangement with Takeda also covers these additional indications for AMITIZA.

  In February 2008, we submitted an MAA for lubiprostone, 24 micrograms, for the indication of chronic idiopathic constipation in adults in the United Kingdom. The MAA has been filed using the decentralized procedure with the United Kingdom, through its Medicines and Healthcare Products Regulatory Agency,

serving as the reference member state, with additional applications subsequently filed with the member states of Belgium, Denmark, France, Germany, Ireland, the Netherlands, Spain and Sweden.

In November 2007, we initiated a multi-center Phase IIb dose-ranging study in Japan to evaluate the safety and efficacy of lubiprostone for treating chronic idiopathic constipation in adults.

- *Cobiprostone.* We are developing orally administered cobiprostone to treat various gastrointestinal and liver disorders, including 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 submitted an IND to the FDA in December 2007 for a Phase II proof-of-concept study of cobiprostone in patients with portal hypertension.
- *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.

Financial Terms of our Collaboration with Takeda

We entered into a 16-year collaboration agreement with Takeda in October 2004 to jointly develop and commercialize AMITIZA for gastrointestinal indications in the United States and Canada. We also entered into a related supplemental agreement with Takeda in February 2006. Under the terms of these agreements, we have received a variety of payments and will have the opportunity to receive additional payments in the future.

Up-front Payment

Upon signing the original collaboration agreement with Takeda, we received a non-refundable up-front payment of $20.0 million. We deferred $2.4 million of this up-front payment associated with our obligation to participate in joint committees with Takeda and we are recognizing this amount as collaboration revenue ratably over the 16-year life of the agreement. We recognized the remaining $17.6 million as research and development revenue ratably over the estimated development period associated with the chronic idiopathic constipation and irritable bowel syndrome with constipation indications, which was completed in June 2007 as evidenced by the filing with the FDA of a supplement to our existing NDA for AMITIZA relating to the treatment of irritable bowel syndrome with constipation.

Product Development Milestone Payments

We have also received the following non-refundable payments from Takeda reflecting our achievement of specific product development milestones:

- $10.0 million upon the filing of the NDA for AMITIZA to treat chronic idiopathic constipation in March 2005;
- $20.0 million upon the initiation of our Phase III clinical trial related to AMITIZA for the treatment of irritable bowel syndrome with constipation in May 2005; and
- $20.0 million upon the receipt of approval from the FDA for AMITIZA for the treatment of chronic idiopathic constipation in adults in January 2006.

We recognized each of these payments as research and development revenue ratably over the estimated development period associated with the chronic idiopathic constipation and irritable bowel syndrome with constipation indications, which was completed in June 2007.

In June 2007, we submitted a supplement to our existing NDA for AMITIZA to the FDA seeking marketing approval for AMITIZA for the treatment of irritable bowel syndrome with constipation. As a result of this submission, Takeda was required by the terms of our collaboration agreement to make a $30.0 million milestone payment to us. We recognized the entire amount of this payment as research and development revenue in the quarter ended June 30, 2007, reflecting the end of the development period for AMITIZA to treat chronic idiopathic constipation and irritable bowel syndrome with constipation.

In addition, our collaboration agreement requires that Takeda pay us up to a further aggregate of $60.0 million conditioned upon our achievement of future regulatory milestones relating to AMITIZA. We would recognize these payments as research and development revenue ratably over the respective performance periods.

Research and Development Cost-Sharing for AMITIZA

Our collaboration agreement and related supplemental agreement with Takeda provides for the sharing between Takeda and us of the costs of our research and development activities for AMITIZA in the United States and Canada as follows:

- Takeda was responsible for the first $30.0 million in research and development expenses we incurred after October 2004 related to AMITIZA for the treatment of chronic idiopathic constipation and irritable bowel syndrome with constipation. We received reimbursement payments from Takeda of $28.5 million in 2005 and $1.5 million in 2004. We recognized each of these payments as research and development revenue ratably over the development period associated with the chronic idiopathic constipation and irritable bowel syndrome with constipation indications, which was completed in June 2007. We did not recognize revenue in any period to the extent that it resulted in cumulative recognized revenue exceeding cumulative reimbursable expenses incurred.

  We were responsible for the next $20.0 million in research and development expenses we incurred related to AMITIZA for the treatment of chronic idiopathic constipation and irritable bowel syndrome with constipation. Thereafter, any expenses in excess of $50.0 million were shared equally between Takeda and us. Because we had received reimbursements of $30.0 million from Takeda, we were responsible for the next $20.0 million of these expenses. Of this next $20.0 million, we incurred $14.0 million through December 31, 2007 to complete the research and development activities for AMITIZA.

- For research and development expenses relating to changing or expanding the labeling of AMITIZA to treat chronic idiopathic constipation and irritable bowel syndrome with constipation, Takeda is responsible for 70% of these expenses and we are responsible for 30%. 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 patients with renal impairment and patients with hepatic impairment. We initiated these studies in January 2007. The expenses of these studies, which we began to incur in the quarter ended September 30, 2006, are being shared 70% by Takeda and 30% by us. Through December 31, 2007, we had incurred $1.5 million of these expenses, of which we have been or will be reimbursed $1.0 million.
- The expense of Phase IV clinical trials of AMITIZA for the treatment of chronic idiopathic constipation in pediatric patients that we initiated in January 2007 will be borne by Takeda in full. As of December 31, 2007, we had incurred $4.7 million of these expenses, all of which have been or will be reimbursed by Takeda.
- For expenses in connection with additional clinical trials required by regulatory authorities relating to AMITIZA to treat chronic idiopathic constipation or irritable bowel syndrome with constipation, Takeda and we are responsible to share these expenses equally. We have not incurred any expenses of this nature to date.
- Takeda is responsible for the first $50.0 million in expenses we incur related to the development of AMITIZA for each gastrointestinal indication other than chronic idiopathic constipation and irritable bowel syndrome with constipation, and any expenses in excess of $50.0 million are shared equally between Takeda and us. We initiated clinical trials of AMITIZA for the treatment of opioid-induced bowel dysfunction in September 2007. We began incurring expenses for these trials in the third quarter of 2006. Currently, we anticipate the aggregate expenses necessary to complete our development of AMITIZA for this indication

will be approximately $54.0 million, of which Takeda will be responsible for $52.0 million and we will be responsible for $2.0 million. As of December 31, 2007, we had incurred $10.8 million of these expenses, all of which we have been or will be reimbursed by Takeda.

- Takeda is responsible for the first $20.0 million in expenses we incur related to the development of each new formulation of AMITIZA, and any expenses in excess of $20.0 million are shared equally between Takeda and us. We have not incurred any expenses of this nature to date.

Co-Promotion Expense Reimbursements

In connection with our exercise of our co-promotion rights under the collaboration agreement and our entry into the related supplemental agreement in February 2006, Takeda agreed to reimburse us for a portion of our expenses related to our specialty sales force. We estimate that these reimbursements will cover approximately 70% of the direct costs for our current sales force of 38 sales representatives. We began to receive monthly reimbursement for these expenses during the quarter ended June 30, 2006, reflecting the commencement by our sales representatives of their activities in April 2006, and we had recognized $4.3 million and $3.4 million of co-promotion revenue reflecting these reimbursements for the years ended December 31, 2007 and 2006, respectively.

Takeda also agreed in the supplemental agreement to reimburse us for all of the costs we incur in connection with specified miscellaneous marketing activities related to the promotion of AMITIZA. During the years ended December 31, 2007 and 2006, we recognized $158,000 and $779,000, respectively, as co-promotion revenue reflecting these reimbursements. We completed the miscellaneous marketing activities, to which these reimbursements relate, in the quarter ended March 31, 2007 and, accordingly, we do not expect to recognize additional co-promotion revenue related to these activities.

Product Royalty Revenue

Takeda is obligated to pay us a varying royalty based on a percentage of the net sales revenue from the sale of AMITIZA in the United States and Canada. The actual percentage will depend on the level of net sales revenue during each calendar year. All sales of AMITIZA in the United States and Canada, including those arranged by our specialty sales force, will be made through Takeda. We began to recognize product royalty revenue in the quarter ended June 30, 2006, reflecting the commencement of commercial sales of AMITIZA in April 2006. During the years ended December 31, 2007 and 2006, we recognized a total of $27.5 million and $6.6 million, respectively, as product royalty revenue.

Commercialization Milestone Payments

Our collaboration agreement also requires Takeda to pay us up to an additional aggregate of $50.0 million conditioned upon the achievement of specified targets for annual net sales revenue from AMITIZA in the United States and Canada. We had not met these targets as of December 31, 2007.

Option Payment

In November 2004, we received $5.0 million from Takeda as an option payment to continue negotiations for the joint development and commercialization of AMITIZA for gastrointestinal indications in additional territories. In the event that these negotiations failed to produce a definitive agreement by specified dates, the terms of the option required us to repay $2.5 million of the original $5.0 million option payment to Takeda. The option right for Asia expired during 2005, at which time we repaid $1.0 million to Takeda and recognized the remaining $1.0 million as contract revenue. The option right for Europe, the Middle East and Africa expired during the first quarter of 2006, at which time we repaid $1.5 million to Takeda and recognized the remaining $1.5 million as contract revenue.

Takeda Cash Flows and Revenue

The following table summarizes the cash streams and related collaboration and research and development revenue recognized under the Takeda Agreements:

	Cash Received through December 31, 2007	Revenue Recognized for the Year Ended December 31,				Accounts Receivable at December 31, 2007*	Amount Deferred at December 31, 2007
		2004	2005	2006	2007		
(In thousands)							
Collaboration revenue:							
Up-front payment associated with our obligation to participate in joint committees with Takeda	$ 2,375	$ 23	$ 147	$ 147	$ 147	$ —	$ 1,911
Research and development revenue:							
Up-front payment — remainder	$ 17,624	$ 1,356	$ 8,134	$ 6,157	$ 1,977	$ —	$ —
Development milestones	80,000	—	16,154	28,237	35,609	—	—
Reimbursement of research and development expenses	43,048	1,482	14,672	11,988	21,793	6,887	—
Total	$ 140,672	$ 2,838	$ 38,960	$ 46,382	$ 59,379	$ 6,887	$ —

* Includes billed and unbilled accounts receivable.

Financial Terms of our License from Sucampo AG

Under our license agreement with our affiliate, Sucampo AG, we are required to pay Sucampo AG 5% of every milestone payment we receive from a sublicensee, such as Takeda. We also are obligated to make the following milestone payments to Sucampo AG:

- $500,000 upon initiation of the first Phase II clinical trial for each compound in each of three territories covered by the license: North, Central and South America (including the Caribbean), Asia and the rest of the world; and
- $1.0 million for the first NDA filing or comparable foreign regulatory filing for each compound in each of these three territories.

In addition, we are required to pay Sucampo AG, on a country-by-country basis, royalty payments of 6.5% of net sales for every product covered by existing patents and, if applicable, thereafter 4.25% of net sales for every product candidate covered by new or improvement patents assigned by us to Sucampo AG. With respect to sales of AMITIZA in North, Central and South America, including the Caribbean, the rates for these royalty payments are set at 3.2% and 2.1% of net sales, respectively. 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 expensed $4.9 million and $1.2 million in product royalties to Sucampo AG during the years ended December 31, 2007 and 2006, respectively, reflecting 3.2% of AMITIZA net sales during each of these years, which we recorded as product royalties — related parties on the consolidated statements of operations and comprehensive income (loss).

We paid Sucampo AG the following milestone royalty payments that were expensed as incurred and recorded as milestone royalties — related parties in the respective periods:

- $1.5 million, reflecting 5% of $30.0 million of development milestone payments that we received from Takeda in 2005;

- $1.0 million, reflecting 5% of a $20.0 million development milestone payment that we received from Takeda, and $250,000 upon marketing approval of AMITIZA by the FDA for the treatment chronic idiopathic constipation in adults in 2006;
- $1.5 million, reflecting 5% of a $30.0 million milestone payment received from Takeda as a result of our submission to the FDA in June 2007 of the supplement to our existing NDA for AMITIZA seeking marketing approval for AMITIZA for the treatment of irritable bowel syndrome with constipation; and
- $500,000 upon the initiation of the first Phase IIb dose-ranging study in Japan in 2007.

We are required to make a $1.0 million payment to Sucampo AG for our first NDA filing, or comparable foreign regulatory filing, in each of the three following territories covered by the license agreement: North, Central and South America (including the Caribbean), Asia and the rest of the world. In February 2008, we filed an MAA in the United Kingdom, which triggered our obligation to make a $1.0 million payment to Sucampo AG for the rest-of-world territory in March 2008.

Supply Agreement with R-Tech

We entered into an exclusive supply arrangement with our affiliate, R-Tech, in March 2003. In return for the exclusive right to manufacture and supply clinical and commercial supplies of AMITIZA and a second prostone compound that we are no longer developing in North, Central and South America, including the Caribbean, R-Tech agreed to make the following milestone payments to us:

- $1.0 million upon entry into the arrangement, which we received in March 2003;
- $2.0 million upon commencement of a first Phase II clinical trial relating to AMITIZA to treat irritable bowel syndrome with constipation, which we received in April 2003; and
- $3.0 million upon commencement of a first Phase II clinical trial for the other compound, which we received in 2003. On March 31, 2005, after evaluating the Phase II study results, we determined to discontinue any further research and development related to this compound and will not receive any further payments in respect of this compound.

We evaluated the $6.0 million in cash receipts from R-Tech and determined these payments were made for the exclusive right to supply inventory to us and, accordingly, should be deferred until commercialization of the drugs begins. We also were unable to accurately apportion value between AMITIZA and the other compound based on the information available to us and determined that the full $6.0 million deferred amount should be amortized over the contractual life of the relationship, which we concluded was equivalent to the commercialization period of AMITIZA and the other compound. Accordingly, we began recognizing this revenue during the quarter ended June 30, 2006 and will continue recognizing it ratably on a straight-line basis over the remaining life of our supply agreement with R-Tech through 2026. As of December 31, 2007, we had recognized a total of $418,000 as contract revenue — related parties under this exclusive supply arrangement with R-Tech.

The supply agreement also requires payment of a specified transfer price in respect of supplies of AMITIZA. Takeda is obligated to make such payment, without reimbursement from us, in respect of commercial supplies of AMITIZA for the territory covered by our collaboration with Takeda.

In June 2005, Sucampo Europe entered into an exclusive supply agreement with R-Tech. In return for the exclusive right to manufacture and supply clinical and commercial supplies of AMITIZA in Europe, the Middle East and Africa, R-Tech agreed to pay us $2.0 million in anticipation of entering into this agreement, which we received in March 2005. We determined that this payment should be deferred until commercialization of AMITIZA begins within the specified territory and, accordingly, the entire $2.0 million is reflected as deferred revenue at December 31, 2007.

Critical Accounting Policies and Estimates

This discussion and analysis of our financial condition and results of operations is based upon our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the

United States of America. The preparation of our consolidated financial statements requires us to make estimates and judgments that affect our reported assets, liabilities, revenues and expenses. Actual results may differ significantly from those estimates under different assumptions and conditions.

We regard an accounting estimate or assumption underlying our financial statements as a critical accounting estimate if:

- the nature of the estimate or assumption is material due to the level of subjectivity and judgment necessary to account for highly uncertain matters or the susceptibility of such matters to change; and
- the impact of the estimates and assumptions on financial condition or operating performance is material.

Our significant accounting policies are described in more detail in note 2 of our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Short- and Long-Term Investments

Short- and long-term investments consist entirely of auction rate securities and a money market account. Our investments in these securities are accounted for as available-for-sale securities under the guidance of Statement of Financial Accounting Standards, or SFAS, No. 115, *"Accounting for Certain Investments in Debt and Equity Securities"*. Although the auction rate securities have variable interest rates which typically reset every seven to 49 days through a competitive bidding process known as a "Dutch auction", they have long-term contractual maturities usually exceeding ten years, and therefore are not classified as cash equivalents. These investments are generally classified within current assets because we have the ability and the intent to liquidate these securities if needed within a short time frame, usually at the next auction.

The 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 income (loss) in stockholders' equity. We assess the recoverability of our available-for-sale securities and, if impairment is indicated, we measure the amount of such impairment by comparing the fair value to the carrying value. Other-than-temporary impairments are included in our statement of operations and comprehensive income (loss).

Interest and dividend income is recorded when earned and included in interest income. Premiums and discounts, if any, on short- and long-term investments are amortized or accreted to maturity and included in interest income. During the years ended December 31, 2007, 2006 and 2005, there were no short- and long-term investments that were purchased at a premium or discount. We use the specific identification method in computing realized gains and losses on sale of our securities. During the years ended December 31, 2007, 2006 and 2005, there were no gains or losses realized on the sale of these investments.

Recent uncertainties in the credit markets have prevented us from liquidating some of our holdings of auction rate securities subsequent to December 31, 2007 as the amount of securities submitted for sale during the auction has exceeded the amount of purchase orders. Although an event of an auction failure does not necessarily mean that a security is impaired, we considered various factors to assess the fair value and the classification of the securities as short-term or long-term assets. Such factors include, but are not necessarily limited to, timing of the failed auction, specific security auction history, likelihood of redemptions, restructurings and other similar liquidity events, quality of underlying collateral, rating of the security and the bond insurer and other factors. Such considerations involve a considerable amount of judgment. As a result of our assessment of the market conditions and related facts, including an instance in which the first auction after year-end failed, one security in an amount of $9.4 million was classified as a long-term investment as of December 31, 2007. In other instances, we experienced successful auctions shortly after December 31, 2007, but then encountered subsequent failed auctions in February and March 2008 in an aggregate amount of $18.3 million.

At December 31, 2007 and 2006, we determined the fair market values of these securities to be the carrying values and we recorded no unrealized gains and losses or other-than-temporary impairments. We assessed the fair value of the auction rate securities as of December 31, 2007 through either an independent valuation for securities which we felt were subject to credit risk at December 31, 2007, including an assessment of all key underlying data and assumptions, or through our own internal assessment of the carrying value and reasonableness of fair values.

Considerable judgment was involved in reaching these determinations. We will continue to monitor the fair value and balance sheet classification of the securities and future adjustments may be necessary.

As of December 31, 2007, all of our auction rate securities consisted of AAA rated non-mortgage related auction rate securities which are insured against loss of principal and interest by bond insurers whose AAA ratings are under review. As of March 20, 2008, we had reduced our investment in auction rate securities by selling $33.2 million of investments at par value. It is uncertain as to when the liquidity issues relating to these investments will improve, although we believe as of December 31, 2007 that the investments classified as short-term will be able to be liquidated within the next 12-month period. We do not anticipate having to sell the remaining securities in order to operate our business. If this changes, however, we may be unable to liquidate some holdings of the auction rate securities and as a result, may suffer losses from these investments. Although a limited secondary market exists for these securities, we do not at this time intend to use the secondary market to dispose of the auction rate securities. In addition, given the complexity of auction rate securities and their valuations, our estimates of their fair value may differ from the actual amount we would be able to collect in an ultimate sale.

Revenue Recognition

Collaboration and License Agreements

Our primary sources of revenue include up-front payments, product development milestone payments, reimbursements of research and development expenses, reimbursement of co-promotion costs related to our specialty sales force and miscellaneous marketing activities, and product royalties. We recognize revenue from these sources in accordance with Staff Accounting Bulletin, or SAB, 104, *"Revenue Recognition"*, Emerging Issues Task Force, or EITF, Issue No. 99-19, *"Reporting Revenue Gross as a Principal Versus Net as an Agent"*, and EITF Issue No. 00-21, *"Revenue Arrangements with Multiple Deliverables"*, or EITF 00-21. The application of EITF 00-21 requires subjective analysis and requires us to make estimates and assumptions about whether deliverables within multiple-element arrangements are separable from the other aspects of the contractual arrangement into separate units of accounting and, if so, to determine the fair value to be allocated to each unit of accounting.

We evaluated the multiple deliverables within our joint collaboration and license agreement and the related supplemental agreement with Takeda in accordance with the provisions of EITF 00-21 to determine whether our deliverables have value to Takeda on a stand-alone basis and whether objective reliable evidence of fair value of the undelivered items exists. We separately evaluate deliverables that meet these criteria for the purposes of revenue recognition. We combine deliverables that do not meet these criteria and account for them as a single unit of accounting.

In accordance with EITF 00-21, we recognized the cash flows associated with the individual units of accounting from the joint collaboration and license agreement as revenue using a time-based model that recognizes the revenue ratably over the period in which we complete our performance requirements. However, revenue is limited to amounts that are non-refundable and that Takeda is contractually obligated to pay. With respect to the portion of the up-front payment we attributed to our obligation to participate in joint committees with Takeda, which we present as collaboration revenue, the performance period is the 16-year term of the collaboration agreement. With respect to the remainder of the up-front payment, as well as the product development milestone payments and the reimbursement of research and development expenses, all of which we present as research and development revenue, the performance period is the estimated development period for AMITIZA to treat chronic idiopathic constipation and irritable bowel syndrome with constipation. The performance period was completed in June 2007 as evidenced by the filing with the FDA of a supplement to our existing NDA for AMITIZA relating to the treatment of irritable bowel syndrome with constipation. We have determined that we are acting as a principal under the collaboration agreement and, as such, we record these amounts on a gross basis as collaboration revenue and as research and development revenue.

We have other obligations with Takeda to perform research and development activities, for which Takeda reimburses us after the services have been performed. We recognize these reimbursable costs as research and development revenue using a similar time-based model over the estimated performance period. The research and

development revenue for these obligations is limited to the lesser of the actual reimbursable costs incurred or the straight-line amount of revenue recognized over the estimated performance period. Revenues are recognized for reimbursable costs only if those costs are supported by an invoice or final contract with a vendor.

Reimbursements of co-promotion costs under the supplemental agreement with Takeda, including costs associated with our specialty sales force and miscellaneous marketing activities, are recognized as co-promotion revenue as the related costs are incurred and Takeda becomes contractually obligated to pay the amounts. We have determined that we are acting as a principal under the supplemental agreement and, as such, we record reimbursements of these amounts on a gross basis as co-promotion revenue.

Product royalty revenue is based on third-party sales of licensed products. We record these amounts 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.

We do not immediately recognize as revenue option fees received for other potential joint collaboration and license agreements with Takeda because the transactions do not represent a separate earnings process. Our policy is to recognize revenue immediately upon expiration of the option or to commence revenue recognition upon exercise of the option and continue recognition over the estimated performance period because we will have contingent performance obligations if and when the options are exercised. We record option fees as contract revenue when they are recognized.

We recognize contract revenue related to development activities with related parties under the time-based method and we recognize contract revenue related to consulting activities with related parties as performance is rendered. We record cost-sharing payments received in advance as deferred revenue and recognize these payments as revenue over the applicable clinical trial period.

Accrued Expenses

As part of our process of preparing our consolidated financial statements, we are required to estimate accrued expenses. This process involves reviewing and identifying services which have been performed by third parties on our behalf and determining the value of these services. Examples of these services are payments to clinical investigators, professional fees, such as accountants' and attorneys' fees, and payments to contracted service organizations. In addition, we make estimates of costs incurred to date but not yet invoiced to us in relation to external contract research organizations and clinical site costs. We analyze the progress of clinical trials, including levels of patient enrollment, invoices received and contracted costs, when evaluating the adequacy of the accrued liabilities. We must make significant judgments and estimates in determining the accrued balance in any accounting period.

In connection with these service fees, our estimates are most affected by our understanding of the status and timing of services provided relative to the actual levels of services incurred by the service providers. The majority of our service providers invoice us monthly in arrears for services performed. In the event we do not identify costs that have begun to be incurred or we under-estimate or over-estimate the level of services performed or the costs of such services, our reported expenses for the relevant period would be too low or too high. We must also sometimes make judgments about the date on which services commence, the level of services performed on or before a given date and the cost of such services. We make these judgments based upon the facts and circumstances known to us in accordance with generally accepted accounting principles.

Stock-Based Compensation

In December 2004, the Financial Accounting Standards Board, or FASB, issued SFAS No. 123R, *"Share-Based Payment"*, or SFAS 123R, a revision of SFAS 123. SFAS 123R requires companies to recognize expense associated with share-based compensation arrangements, including employee stock options, using a fair value-based option-pricing model, and eliminates the alternative to use Accounting Principles Board, or APB, Opinion No. 25's, *"Accounting for Stock Issued to Employees"*, or APB 25, intrinsic-value method of accounting for share-based payments to employees. The standard generally allows two alternative transition methods in the year of adoption — prospective application and retroactive application with restatement of prior financial statements to

include the same amounts that were previously included in the SFAS 123 pro forma disclosures. On January 1, 2006, we adopted SFAS 123R using the prospective method of implementation. According to the modified prospective method, we have been recognizing compensation expense for all share-based payment awards granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R.

For recording our stock-based compensation expense under SFAS 123R, we have chosen to use:

- the straight-line method of allocating compensation cost under SFAS 123R;
- the Black-Scholes-Merton Option Pricing Formula as our chosen option-pricing model;
- the simplified method to calculate the expected term for options as discussed under SAB No. 107, *"Share-Based Payment"*; and
- an estimate of expected volatility based on the historical volatility of similar entities whose share prices are publicly available.

In accordance with the modified prospective method, our consolidated financial statements for prior periods have not been restated to reflect, and do not include, the impact of SFAS 123R, as all outstanding stock options as of January 1, 2006 were fully vested.

Through December 31, 2005, we had elected to account for stock-based compensation attributable to stock options awarded to employees, directors and officers using the intrinsic value method prescribed in APB 25. Under APB 25 guidance, stock-based compensation expense was based on the intrinsic value of awarded stock options, which is measured as the excess, if any, of the fair market value of our class A common stock at the date of grant over the exercise price of the option granted. Stock-based compensation, if any, is recognized over the related vesting period. Accordingly, we have not recorded stock-based compensation expense for stock options issued to employees in fixed amounts with exercise prices at least equal to the fair value of the underlying common stock on the date of grant, including those granted in 2004. We did not award stock options to employees in 2005, although we did award options to non-employees. In note 2 to our consolidated financial statements included later in this Annual Report on Form 10-K, we provide pro forma disclosures for the year ended December 31, 2005 in accordance with SFAS 123 and related pronouncements.

We account for transactions with non-employees in which services are received in exchange for equity instruments under EITF 96-18, *"Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring or in Conjunction with Selling Goods or Services"*. Under this guidance, the transactions are based on the fair value of the services received from the non-employees or the fair value of the equity instruments issued, whichever is more reliably measured. The fair value of the equity instruments is calculated based on the guidance of SFAS 123. The three factors which most affect stock-based compensation are the fair value of the common stock underlying stock options for which stock-based compensation is recorded, the vesting term of the options and the volatility of such fair value of common stock. Accounting for these equity instruments requires us to determine the fair value of the equity instrument granted or sold. If our estimates of the fair value of these equity instruments are too high or too low, it would have the effect of overstating or understating stock-based compensation expenses.

Prior to the completion of our initial public offering in August 2007, our board of directors determined the fair value of our class A common stock for stock option awards given the lack of an active market for our class A common stock. In establishing the estimates of fair value, our board of directors considered the guidance set forth in the AICPA Practice Guide, *"Valuation of Privately-Held-Company Equity Securities Issued as Compensation"*, and made retrospective determinations of fair value. The board of directors gave significant consideration to the price of the class A common stock sold to unrelated third parties in the first half of 2006 in determining fair value for purposes of the stock options granted to employees shortly after the sales occurred.

Determining the fair value of our class A common stock required making complex and subjective judgments. Our approach to valuation was based on a discounted future cash flow approach that used our estimates of revenue, driven by assumed market growth rates, and estimated costs as well as appropriate discount rates. These estimates were consistent with the plans and estimates that we used to manage our business. There was inherent uncertainty in making these estimates.

Income Taxes

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. We follow SFAS No. 109, *"Accounting for Income Taxes"*. This process requires us to estimate our actual current tax exposure while assessing our temporary differences resulting from the differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences have resulted in deferred tax assets and liabilities, which are included in our consolidated balance sheets. We record a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. We consider forecasted earnings, future taxable income, the mix of earnings in the jurisdictions in which we operate, and prudent and feasible tax planning strategies in determining the need for a valuation allowance. Considerable judgment is involved in developing such estimates. In the event we were to determine that we would not be able to realize all or part of our net deferred tax assets in the future, we would charge an adjustment to earnings for the deferred tax assets in the period in which we make that determination. Likewise, if we later determine that it is more likely than not that the net deferred tax assets would be realized, we would reverse the applicable portion of the previously provided valuation allowance. In order for us to realize our deferred tax assets we must be able to generate sufficient taxable income in the tax jurisdictions in which our deferred tax assets are located.

Significant judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against our deferred tax assets. We have recorded a partial valuation allowance of $10.8 million as of December 31, 2007, which resulted in a net deferred tax asset of $639,000 as of December 31, 2007, due to uncertainties related to our ability to utilize a portion of the deferred tax assets in years beyond 2008. Significant future events, including marketing approval by the FDA of AMITIZA for the treatment of irritable bowel syndrome with constipation, are not in our control and could affect our future earnings potential and consequently the amount of deferred tax assets that will be utilized. We determined the amount of the valuation allowance based on our estimates of income in the jurisdictions in which we operate over the periods in which the related deferred tax assets are recoverable.

As of December 31, 2007, we had foreign net operating loss carryforwards of $1.9 million. The foreign net operating loss carryforwards will begin to expire on December 31, 2010. As of December 31, 2007, we had U.S. general business tax credits of $3.1 million, which also may be available to offset future income tax liabilities and will expire if not utilized at various dates beginning December 31, 2022. The Tax Reform Act of 1986 contains provisions that may limit our ability to use our credits available in any given year in which there has been a substantial change in ownership interest, as defined. The realization of the benefits of the tax credits is dependent on sufficient taxable income in future years. Lack of earnings, a change in the ownership of our company, or the application of the alternative minimum tax rules could adversely affect our ability to utilize these tax credits.

Related Party Transactions

As part of our operations, we enter into transactions with our affiliates. At the time of the transaction, we estimate the fair market value of the transaction based upon estimates of net present value or comparable third party information. For material transactions with our foreign subsidiaries and affiliates, we have evaluated the terms of transactions similar to those that would have prevailed had the entities not been affiliated.

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, Drs. Ueno and Kuno. These awards were granted on June 29, 2007 when the founders agreed to their terms and were 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 determined using the Black-Scholes-Merton Option Pricing Formula, as allowed under 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 cash portion of the awards, which was paid to the founders.

Results of Operations

Comparison of years ended December 31, 2007 and December 31, 2006

Revenues

The following table summarizes our revenues for the years ended December 31, 2007 and 2006:

(In thousands)	Year Ended December 31, 2007	2006
Research and development revenue	$ 59,379	$ 46,382
Product royalty revenue	27,536	6,590
Co-promotion revenue	4,411	4,243
Contract revenue — related parties	418	404
Collaboration revenue	147	147
Contract revenue	—	1,500
Total	$ 91,891	$ 59,266

Total revenues were $91.9 million in 2007 compared to $59.3 million in 2006, an increase of $32.6 million. This increase was primarily due to an increase in payments received from Takeda for research and development services performed by us and product royalties from AMITIZA sales.

Research and development revenue was $59.4 million in 2007 compared to $46.4 million in 2006, an increase of $13.0 million. This increase was 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 irritable bowel syndrome with constipation and the recognition of payments previously received from Takeda, offset in part by a decline of $17.0 million of research and development revenue reflecting the recognition of AMITIZA-related deferred revenue previously received from Takeda for only six months in 2007 compared with twelve months in 2006. We recognized revenue for this development work ratably over the estimated performance period associated with the development of AMITIZA, which was completed in June 2007.

The specific revenue streams associated with research and development revenue for the years ended December 31, 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 $6.2 million of research and development revenue in 2007 and 2006, respectively. The smaller amount of revenue recognized in 2007 is a result of the inclusion in 2006 of a full year of revenue recognition compared to 2007, which only included revenue recognition through the first six months. It also reflects our determination in June 2006 to extend the estimated completion of the development period to June 2007, which had the effect of spreading out the remaining revenue over a longer period of time with a smaller amount thus being recognized after that point in each reporting period.
- 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 in 2007 and $10.5 million in 2006. The smaller amount of revenue recognized in 2007 is a result of a full year of revenue recognized in 2006 compared to a partial year of revenue recognized in 2007, reflecting the completion of the development period in 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 in 2007 and $17.8 million in 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 recognized in 2007 is a result of a full year of revenue recognized in 2006 compared to a partial year of revenue recognized in 2007, reflecting the completion of the development period in 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 in 2007 and $10.5 million in 2006. The smaller amount of revenue recognized in 2007 is a result of the full year of revenue recognition in 2006 and also reflects 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 opioid-induced bowel dysfunction. Total research and development revenue associated with these three deliverables in 2007 and 2006 was $18.3 million and $1.1 million, respectively.

Product royalty revenue represents payments received from Takeda relating to net sales of AMITIZA. We began to recognize product royalty payments from Takeda as revenue in the second quarter of 2006 following the product launch of AMITIZA. In 2007, we recognized $27.5 million of product royalty revenue compared to $6.6 million in 2006, reflecting increased sales of AMITIZA.

Co-promotion revenues represent reimbursement by Takeda of co-promotion costs for our specialty sales force and costs associated with miscellaneous marketing activities in connection with the commercialization of AMITIZA. We began to receive reimbursement of costs for our sales force in the second quarter of 2006 following the product launch of AMITIZA. In 2007, we recognized $4.4 million of co-promotion revenues, of which approximately $158,000 was for reimbursement of costs for miscellaneous marketing activities and approximately $4.3 million was for reimbursement of sales force costs. In 2006, we recognized $4.2 million as co-promotion revenues, of which approximately $291,000 was for reimbursement of costs for miscellaneous marketing activities and $3.5 million was for reimbursement of sales force costs.

Contract revenue — related parties represents reimbursement of costs incurred by us on behalf of affiliated companies for research and development consulting, patent maintenance and certain administrative costs. These revenues are recognized in accordance with the terms of the contract or project to which they relate. We had no contract revenue in 2007 compared to $1.5 million in 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.

Research and Development Expenses

Total research and development expenses in 2007 were $28.3 million compared to $16.4 million in 2006, an increase of $11.9 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 irritable bowel syndrome with constipation; 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 opioid-induced bowel dysfunction; 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 irritable bowel syndrome with constipation. In September 2007, we enrolled our first patient in a Phase III study for opioid-induced bowel dysfunction and 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 years ended December 31, 2007 and 2006:

	Year Ended December 31,	
	2007	2006
(In thousands)		
Salaries, benefits and related costs	$ 6,472	$ 5,342
Legal and consulting expenses	2,968	3,356
Stock-based compensation	237	2,708
Founders' stock-based awards	9,188	—
Lease loss	432	—
Other operating expenses	5,734	3,181
Total	$ 25,031	$ 14,587

General and administrative expenses were $25.0 million in 2007 compared to $14.6 million in 2006, an increase of $10.4 million. This increase was due primarily to the founders' stock-based award of $9.2 million granted in June 2007, comprising of $6.1 million non-cash compensation expense and $3.1 million cash settlement expense, offset in part by the decline in stock-based compensation expenses from the $2.7 million recorded in the prior year. This increase also reflected increases in operational headcount, rent for additional leased office space, lease loss related to the abandonment of our former office in Bethesda, Maryland in 2007 and additional costs associated with being a publicly-traded company.

We recorded a cumulative out-of-period adjustment of approximately $358,000 in 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 to the 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 $13.2 million in 2007 compared to $11.1 million in 2006, an increase of $2.1 million. This increase was due to increased costs for market research and analysis, marketing and promotional materials and other costs, reflecting the operation of our sales and marketing function for twelve months in 2007 compared to only nine months in 2006.

Product Royalties — 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 2007, we expensed $4.9 million in product royalties — related parties compared to $1.2 million in 2006, reflecting higher product sales in 2007.

Milestone Royalties — Related Parties

Milestone royalties — related parties were $2.0 million and $1.3 million in 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 and a $500,000 milestone for the initiation of a Phase II trial in Japan. The milestone royalties — related parties of $1.3 million for the year ended December 31, 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.

Non-Operating Income and Expense

The following table summarizes our non-operating income and expense for the years ended December 31, 2007 and 2006:

	Year Ended December 31,	
(In thousands)	**2007**	**2006**
Interest income	$ 2,465	$ 1,976
Interest expense	—	(90)
Other (expense) income, net	151	255
Total non-operating income, net	$ 2,616	$ 2,141

Interest income was $2.5 million in 2007 compared to $2.0 million in 2006, an increase of $489,000. The increase was primarily due to an increase in the funds available for investment as a result of our receipt of development milestone payments from Takeda in June 2007 and the closing of our initial public offering in August 2007. Interest expense was $0 in 2007 compared to $90,000 in 2006, a decrease of $90,000. This decrease reflected our repayment in full in June 2006 of related party debt instruments.

Income Taxes

For the years ended December 31, 2007 and 2006, our consolidated effective tax rate was 37.3% and (29.0%), respectively. The increase in the effective tax rate in 2007 from 2006 was due to a partial release of the valuation allowance on the U.S. deferred tax assets in 2006 that did not recur in 2007. As of December 31, 2007, our remaining valuation allowance against our deferred tax assets was $10.8 million.

Comparison of years ended December 31, 2006 and December 31, 2005

Revenues

The following table summarizes our revenues for the years ended December 2006 and 2005:

(In thousands)	Year Ended December 31, 2006	2005
Research and development revenue	$ 46,382	$ 38,960
Product royalty revenue	6,590	—
Co-promotion revenue	4,243	—
Contract revenue — related parties	404	98
Collaboration revenue	147	147
Contract revenue	1,500	1,000
Total	$ 59,266	$ 40,205

Total revenues were $59.3 million in 2006 compared to $40.2 million in 2005, an increase of $19.1 million. This increase was primarily due to an increase in payments received from Takeda for research and development services performed by us, product royalties from AMITIZA sales, and reimbursements of co-promotion efforts performed by us to market and sell AMITIZA.

Research and development revenue was $46.4 million for the year ended December 31, 2006 compared to $39.0 million for the year ended December 31, 2005, an increase of $7.4 million. The specific revenue streams associated with research and development revenue for the years ended December 31, 2006 and 2005 were as follows:

- In October 2004, we received the 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 $6.2 million and $8.1 million of research and development revenue in 2006 and 2005, respectively. The smaller amount of revenue recognized in 2006 was a result of our determination in June 2006 to extend the estimated completion of the development period to mid 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 $10.5 million of research and development revenue in 2006 and $16.2 million in 2005. The smaller amount of revenue recognized in 2006 was a result of our determinations in June 2006 to extend the estimated completion of the development period to mid 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 $17.8 million of research and development revenue in 2006.
- 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 $10.5 million of research and development revenue in 2006 and $14.7 million in 2005. The smaller amount of revenue recognized in 2006 was a result of our determination in June 2006 to extend the estimated completion of the development period to mid 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 opioid-induced bowel dysfunction. Total research and development revenue associated with these three deliverables in 2006 was $1.1 million.

Product royalty revenue represents payments received from Takeda relating to net sales of AMITIZA. We began to recognize the royalty payments from Takeda as revenue in the second quarter of 2006 following the product launch of AMITIZA. In 2006, we recognized $6.6 million of product royalty revenue. Of this product royalty revenue, we recognized $4.5 million in the quarter ended June 30, 2006, which reflected stocking purchases by drug wholesalers to establish their initial inventory levels, and therefore these revenues may not be indicative of product royalty revenue levels that we may achieve in future periods.

Co-promotion revenues represent reimbursement by Takeda of co-promotion costs for our specialty sales force and costs associated with miscellaneous marketing activities in connection with the commercialization of AMITIZA. We began to receive reimbursement of costs for our sales force in the second quarter of 2006 following the product launch of AMITIZA. In 2006, we recognized $4.2 million as co-promotion revenues, of which approximately $291,000 was for reimbursement of costs for miscellaneous marketing activities and $3.5 million was for reimbursement of sales force costs.

Contract revenue — related parties represents reimbursement of costs incurred by us on behalf of affiliated companies for research and development consulting, patent maintenance and certain administrative costs. These revenues are recognized in accordance with the terms of the contract or project to which they relate. Contract revenue — related parties was $404,000 for the year ended December 31, 2006 compared to $98,000 for the year ended December 31, 2005, an increase of $306,000.

Upon receipt of the $20.0 million up-front payment, we deferred $2.4 million to be recognized using the time-based model over the 16-year performance period of our participation in the committee meetings. During each of the years ended December 31, 2006 and 2005, we recognized $147,000 of this deferred amount as collaboration revenue.

Contract revenue was $1.5 million for the year ended December 31, 2006 compared to $1.0 million for the year ended December 31, 2005, an increase of $500,000. Contract revenue represents amounts released from previously deferred revenue that we recognized upon the expiration of the option granted to Takeda for joint development and commercialization rights for AMITIZA in Europe, Africa and the Middle East.

Research and Development Expenses

Total research and development expenses in 2006 were $16.4 million compared to $31.2 million in 2005, a decrease of $14.8 million. The higher costs in 2005 reflect the significant research and development expenses incurred by us during that period in connection with the filing of the NDA for AMITIZA to treat chronic idiopathic constipation in adults and the initiation of Phase III clinical trials of AMITIZA for the treatment of irritable bowel syndrome with constipation. In 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.

General and Administrative Expenses

The following summarizes our general and administrative expenses for years ended December 31, 2006 and 2005:

	Year Ended December 31,	
(In thousands)	**2006**	**2005**
Salaries, benefits and related costs	$ 5,342	$ 3,843
Legal and consulting expenses	3,356	1,565
Stock-based compensation	2,708	138
Other operating expenses	3,181	2,214
Total	$ 14,587	$ 7,760

General and administrative expenses were $14.6 million in 2006 compared to $7.8 million in 2005, an increase of $6.8 million. This increase was due primarily to recognition of $2.7 million in stock-based compensation expenses following our adoption of SFAS 123R in January 2006, increases in operational headcount, rent for

additional leased office space and a one-time bonus payment to our employees upon receipt of marketing approval for AMITIZA to treat chronic idiopathic constipation in adults, as well as professional fees in connection with our acquisition of the capital stock of Sucampo Europe and Sucampo Japan.

Selling and Marketing Expenses

Selling and marketing expenses were $11.1 million in 2006 compared to $295,000 in 2005, an increase of $10.8 million. This increase was due to costs we incurred to launch AMITIZA in April 2006 and other selling and marketing expenses through the remainder of 2006, including costs for market research and analysis, marketing and promotional materials, product samples and other costs.

Milestone Royalties — Related Parties

Milestone royalties — related parties were $1.3 million in 2006 compared to $1.5 million in 2005, a decrease of $200,000. In the year ended December 31, 2006, we paid Sucampo AG $1.0 million, reflecting the 5% we owed them in respect of 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. In the year ended December 31, 2005, we paid Sucampo AG $1.5 million, reflecting the 5% we owed them in respect of the $30.0 million development milestone payments we received from Takeda during that period.

Product Royalties — 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 2006, we expensed $1.2 million in product royalties — related parties.

Non-Operating Income and Expense

The following table summarizes our non-operating income and expense for the years ended December 31, 2006 and 2005:

	Year Ended December 31,	
(In thousands)	**2006**	**2005**
Interest income	$ 1,976	$ 1,046
Interest expense	(90)	(311)
Other income, net	255	255
Total non-operating income, net	$ 2,141	$ 990

Interest income was $2.0 million in 2006 compared to $1.0 million in 2005, an increase of $1.0 million. The increase was primarily due to an increase in the funds available for investment as a result of our receipt of development milestone payments from Takeda in March 2005, May 2005 and January 2006. Interest expense was $90,000 in 2006 compared to $311,000 in 2005, a decrease of $221,000. This decrease reflected our repayment in full in December 2005 and June 2006 of related party debt.

Income Taxes

For the years ended December 31, 2006 and 2005, our consolidated effective tax rate was (29.0)% and 166.7%, respectively. The decrease in the effective tax rate in 2006 from 2005 was due primarily to the release of $4.9 million from the valuation allowance in 2006 on a portion of the U.S. deferred tax assets.

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
Year Ended December 31, 2007					
Total revenues	$ 91,891	$ —	$ 840	$ (840)	$ 91,891
Income (loss) from operations	21,681	(1,127)	(2,155)	8	18,407
Identifiable assets	114,490	2,381	1,987	(8,831)	110,027
Year Ended December 31, 2006					
Total revenues	$ 57,676	$ 1,500	$ 161	$ (71)	$ 59,266
Income (loss) from operations	13,974	980	(190)	(1)	14,763
Identifiable assets	68,943	496	2,556	(4,899)	67,084
Year Ended December 31, 2005					
Total revenues	$ 39,107	$ —	$ 1,098	$ —	$ 40,205
Income (loss) from operations	115	(1,475)	843	—	(517)

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 payment, milestone and royalty payments received from Takeda and R-Tech, and research and development expense reimbursements from Takeda. From inception through December 31, 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 December 31, 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 2007 and 2006, principally as a result of the development milestones and product royalties that we earned from Takeda. We are entitled to receive $50.0 million upon FDA approval of our sNDA for AMITIZA for the treatment of irritable bowel syndrome with constipation. We expect a PDUFA action in late April 2008 relating to this sNDA.

As of December 31, 2007, we had cash and cash equivalents of $25.6 million, short-term investments of $51.6 million and long-term investments of $9.4 million compared to cash and cash equivalents of $22.5 million and short-term investments of $29.4 million at December 31, 2006. Our cash and cash equivalents are deposits in operating accounts and highly liquid investments with the original maturity at time of purchase of 90 days or less.

As of December 31, 2007, our short- and long-term investments consist of investments in auction rate securities. Auction rate securities are generally long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every seven to 49 days. This mechanism generally allows existing investors to roll-over their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par value.

We generally invest in auction rate securities for short periods of time as part of our cash management program. Recent uncertainties in the credit markets have prevented us from liquidating certain holdings of auction rate securities subsequent to December 31, 2007 as the amount of securities submitted for sale during the auction has exceeded the amount of purchase orders. Although an event of an auction failure does not necessarily mean that a security is impaired, we considered various factors to assess the fair value and the classification of the securities as short-term or long-term assets. Such factors include, but are not necessarily limited to, timing of the failed auction, specific security auction history, likelihood of redemptions, restructurings and other similar liquidity events, quality

of underlying collateral, rating of the security and the bond insurer and other factors. Such considerations involve a considerable amount of judgment. As a result of our assessment of the market conditions and related facts, including an instance in which the first auction after year-end failed, one security in the amount of $9.4 million was classified as a long-term investment as of December 31, 2007. In other instances, we experienced successful auctions shortly after December 31, 2007, but then encountered subsequent failed auctions in February and March 2008 in an aggregate amount of $18.3 million.

As of March 20, 2008, we had reduced our investment in auction rate securities by selling $33.2 million of investments at par value. We continue to hold the remaining securities and are due interest at a higher rate on those securities as to which the auctions have failed than similar securities for which auctions have cleared. These investments consist of AAA-rated non-mortgage related auction rate securities and are insured against loss of principal and interest by bond insurers whose AAA ratings are under review. At December 31, 2007 and 2006, the fair market values of these securities were determined to be the carrying values and no unrealized gains and losses or other-than-temporary impairments were recorded. We assessed the fair value of the auction rate securities as of December 31, 2007 through either an independent valuation for securities which we felt were subject to credit risk at December 31, 2007, including an assessment of all key underlying data and assumptions, or through our own internal assessment of the carrying value and reasonableness of fair values. Considerable judgment was involved in reaching these determinations. If the credit ratings of the issuer, the bond insurer or the collateral deteriorate or the carrying value of the investments decline for any other reason, we may need to adjust the carrying value of these investments. Although a limited secondary market exists for these securities, we do not intend at this time to use the secondary market to dispose of the auction rate securities.

It is uncertain as to when the liquidity issues relating to these investments will improve, although we believe as of December 31, 2007 that the investments classified as short-term will be able to be liquidated within the next 12-month period. Although we do not currently anticipate having to sell these securities in order to operate our business, if that were to change, or if the liquidity issues continue over a prolonged period, we might be unable to liquidate some holdings of our auction rate securities and as a result, might suffer losses from these investments or find that ultimate liquidity for these securities is further reduced. In addition, given the complexity of auction rate securities and their valuations, our estimates of their fair value may differ from the actual amount we would be able to collect in an ultimate sale.

On March 5, 2008, we entered into a line of credit providing for uncommitted borrowings of up to $30.0 million. The lender has no obligation to make advances under this line of credit but may do so in its sole discretion. The line of credit is collateralized by our short- and long-term investments. Advances made under this line of credit will bear an interest rate based on LIBOR plus a predetermined percentage based on the amount of the advance and other conditions. Borrowings under this line of credit are due upon the demand of the lender and the lender can make a repayment demand at its sole option at any time for any or no reason. As of March 20, 2008, we had not drawn down any funds under this line of credit.

Cash Flows

The following table summarizes our cash flows for the years ended December 31, 2007, 2006 and 2005:

	Year Ended December 31,		
(In thousands)	**2007**	**2006**	**2005**
Cash provided by (used in):			
Operating activities	$ 5,649	$ (10,914)	$ 23,815
Investing activities	(33,784)	(1,413)	(25,474)
Financing activities	31,341	17,421	(2,278)
Effect of exchange rates	(128)	(49)	(545)
Net increase (decrease) in cash and cash equivalents	$ 3,078	$ 5,045	$ (4,482)

Year ended December 31, 2007

Net cash provided by operating activities was $5.6 million for the year ended December 31, 2007. This reflected net income of $13.2 million, which included non-cash deferred tax provision of $4.3 million and non-cash stock-based compensation of $6.7 million, offset by an increase in product royalties receivable of $6.6 million and in accounts receivable of $5.9 million and a decrease in deferred revenue of $11.0 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 $33.8 million for the year ended December 31, 2007. This primarily reflected our purchases of short-term investments and 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 year ended December 31, 2007. This reflected the net proceeds from the issuance of class A common stock in our initial public offering, which was consummated in August 2007. We had prepaid $3.1 million of offering expenses prior to 2007.

Year ended December 31, 2006

Net cash used in operating activities was $10.9 million for the year ended December 31, 2006. This reflected net income of $21.8 million, which included a non-cash charge of $3.3 million of stock-based compensation expense. We also had a decrease in deferred tax provision of $4.0 million and a decrease in deferred revenue of $26.8 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 $1.4 million for the year ended December 31, 2006. This reflected our purchases of short-term investments and property and equipment of $2.5 million, offset in part by proceeds received from sales and maturities of short-term investments of $1.3 million.

Net cash provided by financing activities was $17.4 million for the year ended December 31, 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, $2.9 million of payments incurred for our completed initial public offering and $4.8 million of repayments under related party debt instruments.

Year ended December 31, 2005

Net cash provided by operating activities was $23.8 million for the year ended December 31, 2005. This reflected a net loss of $316,000, an increase in our deferred revenue of $20.4 million from research and development payments from Takeda to be amortized over the performance period of the development of AMITIZA and $3.6 million of non-cash stock-based compensation charges.

Net cash used in investing activities was $25.5 million for the year ended December 31, 2005, reflecting our net purchases of $25.4 million in short-term investments.

Net cash provided by financing activities was $2.3 million for the year ended December 31, 2005, reflecting our repayment of related party debt.

Commitments and Contingencies

As of December 31, 2007, our principal outstanding contractual obligations related to our office leases in Bethesda, Maryland, England and Japan. The following table summarizes these significant contractual obligations at December 31 for the indicated year:

(In thousands)	2008	2009	2010	2011	2012	2013 and Thereafter	Total
Contractual obligations:							
Operating leases	$ 1,555	$ 1,325	$ 969	$ 937	$ 963	$ 4,243	$ 9,992

The above table does not include:

- Contingent milestone and royalty obligations under our license agreement with Sucampo AG. These obligations are described in more detail above, and include obligations to pay Sucampo AG:
  - 5% of every milestone payment we receive from a sublicensee;
  - $500,000 upon initiation of the first Phase II clinical trial for each compound in each of the three territories covered by the license;
  - $1.0 million for the first NDA filing or comparable foreign regulatory filing for each compound in each of these three territories; and
  - royalty payments ranging from 2.1% to 6.5% of net sales of products covered by patents licensed to us by Sucampo AG.
- Our share of research and development costs for AMITIZA. As of December 31, 2007, we had incurred $14.0 million of these costs. In June 2007, we submitted an sNDA for the addition of irritable bowel syndrome with constipation as a new indication using a twice daily 8 microgram dose. We expect to incur approximately $2.0 million of additional costs in connection with the development of AMITIZA for other indications, such as the treatment of opioid-induced bowel dysfunction, which will not be reimbursed by Takeda.
- Expenses under agreements with contract research organizations for clinical trials of our product candidates. The timing and amount of these disbursements are based on a variety of factors, such as the achievement of specified milestones, patient enrollment, services rendered or the incurrence of expenses by the contract research organization. As a result, we reasonably estimate that as of December 31, 2007, our current commitments to contract research organizations to be $24.2 million during 2008 and 2009.

In addition, the FDA has required us to perform two post-marketing studies to evaluate the safety of AMITIZA in patients with renal impairment and patients with hepatic impairment. Under our collaboration agreement with Takeda, the costs for these studies will be shared 70% by Takeda and 30% by us. We do not anticipate our portion of these expenses will exceed $5.0 million.

Funding Requirements

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 potential future milestone payments of up to $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.

Related Party Transactions

Under our license agreement with our affiliate Sucampo AG, we are required to make specified milestone and royalty payments. We estimated the fair value of this arrangement based upon like-kind third-party evidentiary matter for the transaction. When we entered into this agreement, we performed an economic analysis of the transaction to ensure that we were receiving a return on our investment equivalent to that of other pharmaceutical companies. In addition, we performed a transfer pricing study and economic analysis to provide evidence that the agreement did not conflict with taxing guidelines.

Under our exclusive supply agreement with R-Tech, R-Tech made milestone payments to us totaling $6.0 million during 2004 and we recorded the full amount as deferred revenue. We first began to recognize these payments as revenue during the quarter ended June 30, 2006 and will continue to recognize them ratably through 2020. When we entered into this agreement, we evaluated the net present value of the supply agreement, based upon anticipated cash flows from the successful development and commercialization of the compounds it covers, to determine the current value of the transaction. Additionally, we performed a transfer pricing study and economic analysis to provide evidence the agreement did not conflict with taxing guidelines.

For information regarding additional related party transactions, see note 9 to our consolidated financial statements included in this Annual Report on Form 10-K.

Changes in the application of domestic or foreign taxing regulations and interpretation of related party transactions with foreign entities could affect the extent to which taxing authorities agree that these transactions are on an arm’s length basis.

Effects of Inflation

Our most liquid assets are cash, cash equivalents and short-term investments. Because of their liquidity, these assets are not directly affected by inflation. We also believe that we have intangible assets in the value of our intellectual property. In accordance with generally accepted accounting principles, we have not capitalized the value of this intellectual property on our balance sheets. Due to the nature of this intellectual property, we believe that these intangible assets are not affected by inflation. Because we intend to retain and continue to use our equipment, furniture and fixtures and leasehold improvements, we believe that the incremental inflation related to replacement costs of such items will not materially affect our operations. However, the rate of inflation affects our expenses, such as those for employee compensation and contract services, which could increase our level of expenses and the rate at which we use our resources.

Effects of Foreign Currency

We currently incur a portion of our operating expenses in the United Kingdom and Japan. The reporting currency for our consolidated financial statements is U.S. Dollars. As such, our results of operations could be adversely effected by changes in exchange rates either due to transaction losses, which are recognized in the statement of operations, or translation losses, which are recognized in comprehensive income. We currently do not hedge foreign exchange rate exposure.

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.

Accounting Pronouncements

In September 2006, the FASB issued SFAS No. 157, *"Fair Value Measurements"*, or 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. SFAS 157 outlines a common definition of fair value and the new standard intends to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. We will need to adopt SFAS 157 for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB agreed to delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. We are assessing SFAS 157 and its impact on our consolidated financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115"*, or SFAS 159. Under this standard, entities will now be permitted to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are assessing SFAS 159 in connection with SFAS 157 and its impact on our consolidated financial statements upon adoption.

In June 2007, the EITF issued EITF Issue No. 07-3, *"Accounting for Nonrefundable Advance Payments for Goods or Services to Be Used in Future Research and Development Activities"*, or 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. We will be required to adopt EITF 07-3 for the year beginning after December 15, 2007. We are assessing EITF 07-3 and do not expect a material impact on our future consolidated financial statements upon adoption.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *"Business Combinations"*, or SFAS 141R, and SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51"*, or SFAS 160. SFAS 141R will change how business acquisitions are accounted for and will affect financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 will be applied to acquisitions that close in years beginning after December 15, 2008. Early adoption is not permitted. SFAS 141R and SFAS 160 will not have any impact our future consolidated financial statements unless we undertake an acquisition in the future.

In December 2007, the FASB ratified EITF Issue 07-1, *"Accounting for Collaborative Arrangements"*, or EITF 07-1. The consensus prohibits the equity method of accounting for collaborative arrangements under APB 18, *"The Equity Method of Accounting for Investments in Common Stock"*, unless a legal entity exists. Payments between the collaborative partners will be evaluated and reported in the income statement based on applicable accounting principles generally accepted in the United States of America, or GAAP. Absent specific GAAP, the participants to the arrangement will apply other existing GAAP by analogy or apply a reasonable and rational accounting policy consistently. The guidance in Issue 07-1 is effective for periods that begin after December 15,

2008 and will apply to arrangements in existence as of the effective date. The effect of the new consensus will be accounted for as a change in accounting principle through retrospective application. We are assessing EITF 07-1 and its impact on our consolidated financial statements upon adoption.

In December 2007, the SEC issued SAB No. 110, "*Share-Based Payment*", or SAB 110, which expresses the views of the SEC regarding the use of a simplified method, as discussed in SAB 107, in developing an estimate of the expected term of plain vanilla share options in accordance with SFAS 123R. In SAB 110, the SEC stated that it understood that the detailed information necessary to calculate an expected term for plain vanilla options may not be widely available by December 31, 2007, as previously discussed within SAB 107. Accordingly, the SEC will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. As allowed under SAB 110, we will continue to use the simplified method in estimating the expected term of our stock options until such time as more relevant detailed information becomes available.

ITEM 7A. ***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. 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 December 31, 2007.

Our exposure to credit risk consist of cash and cash equivalents, restricted cash, investments and receivables. We place our cash and case equivalents, restricted cash and investments with highly rated financial institutions. As of December 31, 2007 we had approximately $85.9 million of cash and cash equivalents, restricted cash and investments in excess of federally insured limits. We have not experienced any losses on these accounts in excess of insured limits.

As of December 31, 2007, we had $60.9 million invested in auction rate securities. Auction rate securities are long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every seven to 49 days. This mechanism generally allows existing investors to roll-over their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par value and therefore are usually classified within current assets.

We generally invest in auction rate securities for short periods of time as part of our cash management program. Recent uncertainties in the credit markets have prevented us from liquidating certain holdings of auction rate securities subsequent to December 31, 2007 as the amount of securities submitted for sale during the auction has exceeded the amount of purchase orders. Although an event of an auction failure does not necessarily mean that a security is impaired, we considered various factors to assess the fair value and the classification of the securities as short-term or long-term assets. Such factors include, but are not necessarily limited to, timing of the failed auction, specific security auction history, likelihood of redemptions, restructurings and other similar liquidity events, quality of underlying collateral, rating of the security and the bond insurer and other factors. Such considerations involve a considerable amount of judgment. As a result of our assessment of the market conditions and related facts, including an instance in which the first auction after year-end failed, one security in the amount of $9.4 million was classified as a long-term investment as of December 31, 2007. In other instances, we experienced successful auctions shortly after December 31, 2007, but then encountered subsequent failed auctions in February and March 2008 in an aggregate amount of $18.3 million.

As of March 20, 2008, we had reduced our investment in auction rate securities by selling $33.2 million of investments at par value. We continue to hold the remaining securities and are due interest at a higher rate on those

securities as to which the auctions have failed than similar securities for which auctions have cleared. These investments consist of AAA-rated non-mortgage related auction rate securities and are insured against loss of principal and interest by bond insurers whose AAA ratings are under review. At December 31, 2007 and 2006, the fair market values of these securities were determined to be the carrying values and no unrealized gains and losses or other-than-temporary impairments were recorded. We assessed the fair value of the auction rate securities as of December 31, 2007 through either an independent valuation for securities which we felt were subject to credit risk at December 31, 2007, including an assessment of all key underlying data and assumptions, or through our own internal assessment of the carrying value and reasonableness of fair values. Considerable judgment was involved in reaching these determinations. If the credit ratings of the issuer, the bond insurer or the collateral deteriorate or the carrying value of the investments decline for any other reason, we may need to adjust the carrying value of these investments. Although a limited secondary market exists for these securities, we do not intend at this time to use the secondary market to dispose of the auction rate securities.

It is uncertain as to when the liquidity issues relating to these investments will improve, although we believe as of December 31, 2007 that the investments classified as short-term will be able to be liquidated within the next 12-month period. Although we do not currently anticipate having to sell these securities in order to operate our business, if that were to change, or if the liquidity issues continue over a prolonged period, we might be unable to liquidate some holdings of our auction rate securities and as a result, might suffer losses from these investments. In addition, given the complexity of auction rate securities and their valuations, our estimates of their fair value may differ from the actual amount we would be able to collect in an ultimate sale.

ITEM 8. ***FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

The consolidated financial statements and related financial statement schedules required by this item are included beginning on page F-1 of this report.

ITEM 9. ***CHANGES IN AND DISAGREEMENTS WITH FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA***

None.

ITEM 9A. ***CONTROLS AND PROCEDURES***

Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our “disclosure controls and procedures” (as defined in Rule 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of December 31, 2007. Based upon this evaluation, management has concluded that, as of December 31, 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 management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

Changes in Internal Controls

There were no changes in our internal control over financial reporting during the quarter ended December 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

ITEM 9B. ***OTHER INFORMATION***

None.

PART III

ITEM 10. *DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE*

The information regarding our executive officers required by this Item is set forth under Item 1 to this Annual Report on Form 10-K.

The following information will be included in our Proxy Statement to be filed within 120 days after the fiscal year end of December 31, 2007, and is incorporated herein by reference:

- Information regarding our directors required by this Item is set forth under the heading “Election of Directors”;
- Information regarding our Audit Committee and designated “audit committee financial experts” is set forth under the heading “Corporate Governance Principles and Board Matters, Board Structure and Committee Composition — Audit Committee”; and
- Information regarding Section 16(a) beneficial ownership reporting compliance is set forth under the heading “Section 16(a) Beneficial Ownership Reporting Compliance”.

Code of Ethics

We have adopted a code of ethics and business conduct that applies to our employees including our principal executive officer, principal financial officer, principal accounting officer, and persons performing similar functions. Our code of ethics and business conduct can be found posted in the investor relations section on our website at http://www.sucampo.com.

ITEM 11. *EXECUTIVE COMPENSATION*

The information required by this Item is incorporated by reference to the information provided under the heading “Executive Compensation” of the Proxy Statement.

ITEM 12. *SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS*

The information required by this Item is incorporated by reference to the information provided under the heading “Security Ownership of Certain Beneficial Owners and Management” and “Equity Compensation Plan Information” of the Proxy Statement.

ITEM 13. *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS AND DIRECTOR INDEPENDENCE*

The information required by this Item is incorporated by reference to the information provided under the heading “Certain Relationships and Related Transactions” of the Proxy Statement.

ITEM 14. ***PRINCIPAL ACCOUNTING FEES AND SERVICES***

The information required by this Item is incorporated by reference to the information provided under the heading “Principal Accounting Fees and Services” of the Proxy Statement.

PART IV

ITEM 15. ***EXHIBITS AND FINANCIAL STATEMENT SCHEDULE***

(a) The following financial statements, financial statement schedule and exhibits are filed as part of this report or incorporated herein by reference:

(1) *Consolidated Financial Statements.* See index to consolidated financial statements on page F-1.

(2) *Financial Statement Schedule:* Schedule II — Valuation and Qualifying Accounts. All other schedules are omitted because they are not applicable, not required or the information required is shown in the financial statements or notes thereto.

(3) *Exhibits.* See subsection (b) below.

(b) *Exhibits.* The following exhibits are filed or incorporated by reference as part of this report.

Exhibit Number	Description	Reference
3.1	Restated Certificate of Incorporation	Exhibit 3.1 to the Company’s Current Report on Form 8-K (filed August 8, 2007)
3.2	Form of Restated Bylaws	Exhibit 3.4 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
4.1	Specimen Stock Certificate evidencing the shares of class A common stock	Exhibit 4.1 to Registration Statement No. 333-135133, Amendment No. 5 (filed February 1, 2007)
10.1	Amended and Restated 2001 Stock Incentive Plan	Exhibit 10.1 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.2	Amended and Restated 2006 Stock Incentive Plan	Exhibit 10.2 to the Company’s Quarterly Report on Form 10-Q (filed November 14, 2007)
10.3	2006 Employee Stock Purchase Plan	Exhibit 10.3 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.4	Form of Incentive Stock Option Agreement for 2006 Stock Incentive Plan	Exhibit 10.4 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.5	Form of Nonstatutory Stock Option Agreement for 2006 Stock Incentive Plan	Exhibit 10.5 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.6	Form of Restricted Stock Agreement for 2006 Stock Incentive Plan	Exhibit 10.6 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.7	Non-employee Director Compensation Summary	Exhibit 10.7 to Registration Statement No. 333-135133, Amendment No. 1 (filed August 11, 2006)
10.8	Employment Agreement, dated June 16, 2006, between the Company and Ryuji Ueno	Exhibit 10.9 to Registration Statement No. 333-135133, Amendment No. 1 (filed August 11, 2006)
10.9	Form of Executive Employment Agreement	Exhibit 10.10 to Registration Statement No. 333-135133, (filed June 19, 2006)

Exhibit Number	Description	Reference
10.10	Indemnification Agreement, dated May 26, 2004, between the Company and Sachiko Kuno	Exhibit 10.11 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.11	Indemnification Agreement, dated May 26, 2004, between the Company and Ryuji Ueno	Exhibit 10.12 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.12	Indemnification Agreement, dated May 26, 2004, between the Company and Michael Jeffries	Exhibit 10.13 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.13	Indemnification Agreement, dated May 26, 2004, between the Company and Hidetoshi Mine	Exhibit 10.14 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.14	Form of Investor Rights Agreement	Exhibit 10.16 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.15	Lease Agreement, dated September 16, 1998, between the Company and Plaza West Limited Partnership, successor in interest to Trizechahn Plaza West Limited Partnership, as amended	Exhibit 10.17 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.16	Sublease Agreement, dated October 26, 2005, between the Company and First Potomac Realty Investment L.P.	Exhibit 10.18 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.17	Amended and Restated Patent Access Agreement, dated June 30, 2006, among the Company, Sucampo Pharma Europe Ltd., Sucampo Pharma, Ltd. and Sucampo AG	Exhibit 10.19 to Registration Statement No. 333-135133, Amendment No. 1 (filed August 11, 2006)
10.18*	Exclusive Manufacturing and Supply Agreement, dated June 23, 2004, between the Company and R-Tech Ueno, Ltd., as amended on October 2, 2006	Exhibit 10.20 to Registration Statement No. 333-135133, Amendment No. 3 (filed October 25, 2006)
10.19*	Collaboration and License Agreement, dated October 29, 2004, between the Company and Takeda Pharmaceutical Company Limited	Exhibit 10.21 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.20*	Agreement, dated October 29, 2004, among the Company, Takeda Pharmaceutical Company Limited and Sucampo AG	Exhibit 10.22 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.21*	Supply Agreement, dated October 29, 2004, among the Company, Takeda Pharmaceutical Company Limited and R-Tech Ueno, Ltd.	Exhibit 10.23 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.22*	Supply and Purchase Agreement, dated January 25, 2006, among the Company, Takeda Pharmaceutical Company Limited and R-Tech Ueno, Ltd.	Exhibit 10.24 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.23*	Supplemental Agreement, dated February 1, 2006, between the Company and Takeda Pharmaceutical Company Limited	Exhibit 10.25 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.24*	Services Agreement, dated February 9, 2006, between the Company and Ventiv Commercial Services, LLC	Exhibit 10.26 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.25	Indemnification Agreement, dated September 7, 2006, between the Company and Timothy Maudlin	Exhibit 10.27 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.26	Indemnification Agreement, dated September 7, 2006, between the Company and Sue Molina	Exhibit 10.28 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)

Exhibit Number	Description	Reference
10.27*	Exclusive Manufacturing and Supply Agreement, dated June 24, 2005, between Sucampo Pharma Europe Ltd. and R-Tech Ueno, Ltd., as amended on October 2, 2006	Exhibit 10.29 to Registration Statement No. 333-135133, Amendment No. 3 (filed October 25, 2006)
10.28*	SPI-8811 and SPI-017 Exclusive Clinical Manufacturing and Supply Agreement, dated October 4, 2006, between the Company and R-Tech Ueno, Ltd.	Exhibit 10.31 to Registration Statement No. 333-135133, Amendment No. 3 (filed October 25, 2006)
10.29	Lease Agreement, dated December 18, 2006, between the Company and EW Bethesda Office Investors, LLC	Included herewith
10.30	Amendment to Employment Agreement, dated November 20, 2006, between the Company and Ryuji Ueno	Exhibit 10.35 to Registration Statement No. 333-135133, Amendment No. 5 (filed February 1, 2007)
10.31	Letter agreement, dated January 29, 2007, between the Company and Takeda Pharmaceutical Company Limited	Exhibit 10.36 to Registration Statement No. 333-135133, Amendment No. 6 (filed May 14, 2007)
10.32	Employment Agreement, effective June 1, 2007, between the Company and Sachiko Kuno	Exhibit 10.37 to Registration Statement No. 333-135133, Amendment No. 8 (filed July 17, 2007)
10.33	Amended Employment Agreement, dated May 12, 2007, between the Company and Mariam E. Morris	Exhibit 10.38 to Registration Statement No. 333-135133, Amendment No. 7 (filed June 25, 2007)
10.34	Indemnification Agreement, dated October 18, 2007, between the Company and Anthony C. Celeste	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (filed November 14, 2007)
10.35	Amendment, dated December 14, 2007, to Employment Agreement between the Company and Mariam E. Morris	Exhibit 10.1 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.36	Amendment, dated December 10, 2007, to Employment Agreement between the Company and Mariam E. Morris	Exhibit 10.2 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.37	Amendment, dated December 7, 2007, to Employment Agreement between the Company and Brad Fackler	Exhibit 10.3 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.38	Amendment, dated December 6, 2007, to Employment Agreement between the Company and Gayle Dolecek	Exhibit 10.4 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.39	Amendment, dated December 5, 2007, to Employment Agreement between the Company and Kei Tolliver	Exhibit 10.5 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.40	Amendment, dated November 26, 2007, to Employment Agreement between the Company and Ryuji Ueno	Exhibit 10.6 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.41	Credit Line Agreement, dated March 5, 2008, between the Company and UBS Bank USA	Included herewith
23.1	Consent of PricewaterhouseCoopers LLC, Independent Registered Public Accounting Firm	Included herewith
31.1	Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002	Included herewith

Exhibit Number	Description	Reference
31.2	Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002	Included herewith
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	Included herewith
32.2	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	Included herewith

Compensatory plan, contract or arrangement.

* Confidential treatment has been requested for portions of this exhibit.

Signatures

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Sucampo Pharmaceuticals, Inc.

By: /s/ RYUJI UENO
Ryuji Ueno, M.D., Ph.D.,Ph.D.
Chief Executive Officer,
Chief Scientific Officer and
Chairman of the Board of Directors

March 27, 2008

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date
/s/ RYUJI UENO Ryuji Ueno, M.D., Ph.D., Ph.D.	Chief Executive Officer (Principal Executive Officer), Chief Scientific Officer and Director	March 27, 2008
/s/ MARIAM E. MORRIS Mariam E. Morris	Chief Financial Officer (Principal Financial and Accounting Officer)	March 27, 2008
/s/ ANTHONY C. CELESTE Anthony C. Celeste	Director	March 27, 2008
/s/ MICHAEL J. JEFFRIES Michael J. Jeffries	Director	March 27, 2008
/s/ TIMOTHY I. MAUDLIN Timothy I. Maudlin	Director	March 27, 2008
/s/ HIDETOSHI MINE Hidetoshi Mine	Director	March 27, 2008
/s/ V. SUE MOLINA V. Sue Molina	Director	March 27, 2008
/s/ JOHN C. WRIGHT John C. Wright	Director	March 27, 2008

SUCAMPO PHARMACEUTICALS, INC.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Sucampo Pharmaceuticals, Inc.

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Sucampo Pharmaceuticals, Inc. and its subsidiaries at December 31, 2007 and 2006, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 2 to the accompanying consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation in 2006.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
March 24, 2008

SUCAMPO PHARMACEUTICALS, INC.

Consolidated Balance Sheets

(In thousands, except share data)	December 31, 2007	December 31, 2006
ASSETS:		
Current assets:		
Cash and cash equivalents	$ 25,559	$ 22,481
Investments, short-term	51,552	29,399
Accounts receivable	1,525	1,537
Unbilled accounts receivable	5,883	—
Product royalties receivable	8,667	2,029
Prepaid and income taxes receivable	1,922	2,355
Deferred tax assets, net	88	1,612
Prepaid expenses and other current assets	2,222	536
Total current assets	97,418	59,949
Restricted cash	213	213
Investments, long-term	9,400	—
Property and equipment, net	2,265	343
Deferred tax assets — noncurrent, net	551	3,289
Deposits and other assets	180	3,290
Total assets	$ 110,027	$ 67,084
LIABILITIES AND STOCKHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 3,313	$ 2,391
Accrued expenses	8,730	5,418
Deferred revenue — current	1,062	11,517
Total current liabilities	13,105	19,326
Deferred revenue, net of current portion	8,626	9,192
Other liabilities	1,768	33
Total liabilities	23,499	28,551
Commitments		
Stockholders' equity:		
Series A convertible preferred stock, $0.01 par value; 0 and 10,000 shares authorized at December 31, 2007 and 2006, respectively; 0 and 3,780 shares issued and outstanding at December 31, 2007 and 2006, respectively	—	20,288
Preferred stock, $0.01 par value; 5,000,000 and 0 shares authorized at December 31, 2007 and 2006, respectively; no shares issued and outstanding at December 31, 2007 and 2006	—	—
Class A common stock, $0.01 par value; 270,000,000 and 75,000,000 shares authorized at December 31, 2007 and 2006, respectively; 15,538,518 and 8,799,385 shares issued and outstanding at December 31, 2007 and 2006, respectively	155	88
Class B common stock, $0.01 par value; 75,000,000 shares authorized; 26,191,050 shares issued and outstanding at December 31, 2007 and 2006	262	262
Additional paid-in capital	96,680	41,555
Accumulated other comprehensive loss	(393)	(294)
Accumulated deficit	(10,176)	(23,366)
Total stockholders' equity	86,528	38,533
Total liabilities and stockholders' equity	$ 110,027	$ 67,084

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

SUCAMPO PHARMACEUTICALS, INC.

Consolidated Statements of Operations and Comprehensive Income (Loss)

(In thousands, except per share data)	Year Ended December 31, 2007	2006	2005
Revenues:			
Research and development revenue	$ 59,379	$ 46,382	$ 38,960
Product royalty revenue	27,536	6,590	—
Co-promotion revenue	4,411	4,243	—
Contract revenue — related parties	418	404	98
Collaboration revenue	147	147	147
Contract revenue	—	1,500	1,000
Total revenues	91,891	59,266	40,205
Operating expenses:			
Research and development	28,334	16,392	31,167
General and administrative	25,031	14,587	7,760
Selling and marketing	13,229	11,103	295
Product royalties — related parties	4,890	1,171	—
Milestone royalties — related parties	2,000	1,250	1,500
Total operating expenses	73,484	44,503	40,722
Income (loss) from operations	18,407	14,763	(517)
Non-operating income (expense):			
Interest income	2,465	1,976	1,046
Interest expense	—	(90)	(311)
Other income, net	151	255	255
Total non-operating income, net	2,616	2,141	990
Income before income taxes	21,023	16,904	473
Income tax (provision) benefit	(7,833)	4,897	(789)
Net income (loss)	$ 13,190	$ 21,801	$ (316)
Net income (loss) per share:			
Basic net income (loss) per share	$ 0.35	$ 0.63	$ (0.01)
Diluted net income (loss) per share	$ 0.35	$ 0.63	$ (0.01)
Weighted average common shares outstanding — basic	37,778	34,383	32,601
Weighted average common shares outstanding — diluted	38,226	34,690	32,601
Comprehensive income (loss):			
Net income (loss)	$ 13,190	$ 21,801	$ (316)
Other comprehensive income (loss):			
Foreign currency translation	(99)	(200)	33
Comprehensive income (loss)	$ 13,091	$ 21,601	$ (283)

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

SUCAMPO PHARMACEUTICALS, INC.

Consolidated Statements of Changes in Stockholders' Equity (Deficit)

(In thousands, except share data)	Series A Convertible Preferred Stock		Class A Common Stock		Class B Common Stock		Additional Paid-in Capital	Deferred Compensation	Accumulated Other Comprehensive Loss	Accumulated Deficit	Total Stockholders' (Deficit) Equity
	Shares	Amount	Shares	Amount	Shares	Amount					
Balance at December 31, 2004	3,780	$ 20,288	2,165,502	$ 21	30,441,050	$ 305	$ 10,888	$ (62)	$ (127)	$ (44,851)	$ (13,538)
Amortization of deferred compensation	—	—	—	—	—	—	—	26	—	—	26
Conversion of class B common stock to class A common stock	—	—	4,250,000	43	(4,250,000)	(43)	—	—	—	—	—
Issuance of stock options and vesting modifications	—	—	—	—	—	—	3,614	—	—	—	3,614
Forfeitures of 31,875 shares of restricted class A common stock	—	—	(31,875)	—	—	—	(97)	36	—	—	(61)
Exercise of 8,500 options for 8,500 shares of class A common stock	—	—	8,500	—	—	—	2	—	—	—	2
Foreign currency translation	—	—	—	—	—	—	—	—	33	—	33
Net loss	—	—	—	—	—	—	—	—	—	(316)	(316)
Balance at December 31, 2005	3,780	20,288	6,392,127	64	26,191,050	262	14,407	—	(94)	(45,167)	(10,240)
Issuance of 2,398,758 shares of class A common stock at $10 per share net of offering costs of $91,792	—	—	2,398,758	24	—	—	23,872	—	—	—	23,896
Exercise of 8,500 options for 8,500 shares of class A common stock	—	—	8,500	—	—	—	2	—	—	—	2
Foreign currency translation	—	—	—	—	—	—	—	—	(200)	—	(200)
Stock-based compensation	—	—	—	—	—	—	3,274	—	—	—	3,274
Net income	—	—	—	—	—	—	—	—	—	21,801	21,801
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	—	—	401,133	4	—	—	6,678	—	—	—	6,682
Issuance of 3,125,000 shares of class A common stock at $11.50 per share, net of offering costs of $5,200	—	—	3,125,000	31	—	—	28,191	—	—	—	28,222
Conversion of series A convertible preferred stock to class A common stock	(3,780)	(20,288)	3,213,000	32	—	—	20,256	—	—	—	—
Foreign currency translation	—	—	—	—	—	—	—	—	(99)	—	(99)
Net income	—	—	—	—	—	—	—	—	—	13,190	13,190
Balance at December 31, 2007	—	$ —	15,538,518	$ 155	26,191,050	$ 262	$ 96,680	$ —	$ (393)	$ (10,176)	$ 86,528

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

SUCAMPO PHARMACEUTICALS, INC.

Consolidated Statements of Cash Flows

(In thousands)	Year Ended December 31, 2007	2006	2005
Cash flows from operating activities:			
Net income (loss)	$ 13,190	$ 21,801	$ (316)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	251	69	62
Loss on disposal of property and equipment	63	—	—
Deferred tax provision (benefit)	4,262	(4,035)	(684)
Stock-based compensation	6,682	3,274	3,615
Changes in operating assets and liabilities:			
Accounts receivable	(23)	(813)	(489)
Unbilled accounts receivable	(5,883)	—	—
Product royalties receivable	(6,638)	(2,029)	—
Prepaid and income taxes receivable and payable, net	431	(4,007)	1,464
Prepaid expenses and other current assets	(1,655)	(254)	(103)
Deposits and other assets	—	(84)	15
Accounts payable	924	437	610
Accrued expenses	3,341	3,023	354
Deferred revenue	(11,028)	(26,829)	20,364
Other liabilities	1,732	(1,467)	(1,077)
Net cash provided by (used in) operating activities	5,649	(10,914)	23,815
Cash flows from investing activities:			
Purchases of short-term investments	(88,647)	(2,309)	(28,435)
Proceeds from the sales and maturities of short-term investments	57,094	1,345	3,000
Purchases of property and equipment	(2,231)	(236)	(39)
Investments in restricted cash	—	(213)	—
Net cash used in investing activities	(33,784)	(1,413)	(25,474)
Cash flows from financing activities:			
Issuance of common stock, net of offering costs	31,341	23,896	—
Payments of initial public offering costs	—	(2,923)	—
Issuance of notes payable — related parties	—	1,200	—
Payments on notes payable — related parties	—	(4,754)	(2,280)
Proceeds from exercise of stock options	—	2	2
Net cash provided by (used in) financing activities	31,341	17,421	(2,278)
Effect of exchange rates on cash and cash equivalents	(128)	(49)	(545)
Net increase (decrease) in cash and cash equivalents	3,078	5,045	(4,482)
Cash and cash equivalents at beginning of year	22,481	17,436	21,918
Cash and cash equivalents at end of year	$ 25,559	$ 22,481	$ 17,436
Supplemental cash flow disclosures:			
Cash paid for interest	$ —	$ 86	$ 251
Tax refunds received	$ 1,361	$ —	$ —
Tax payments made	$ 4,500	$ 3,161	$ —

Upon the completion of the Company's initial public offering in August 2007, $3.1 million of initial public offering costs paid in 2006 were reclassified from deposits and other assets to additional paid-in capital.

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

SUCAMPO PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements

1. Business Organization and Basis of Presentation

Description of the Business

Sucampo Pharmaceuticals, Inc. (Sucampo) was incorporated in the State of Delaware on December 5, 1996 and is a specialty biopharmaceutical 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. Sucampo is focused on developing prostones for the treatment of gastrointestinal, respiratory, vascular and central nervous system diseases and disorders. In September 2006, Sucampo acquired the capital stock of its affiliated European and Asian operating companies, Sucampo Pharma Europe, Ltd. (Sucampo Europe) and Sucampo Pharma, Ltd. (Sucampo Japan). Hereinafter, Sucampo, Sucampo Europe and Sucampo Japan are referred to collectively as the "Company". The financial information of these three entities is presented in these consolidated financial statements.

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 of directors and serves as the Chief Executive Officer and Chief Scientific Officer of the Company (see Note 9).

The Company is party to a collaboration and license agreement with Takeda Pharmaceutical Company Limited (Takeda) to jointly develop and commercialize AMITIZA® (lubiprostone) for chronic idiopathic constipation, irritable bowel syndrome with constipation, opioid-induced bowel dysfunction and other gastrointestinal indications in the United States and Canada. In January 2006, the Company received marketing approval from the U.S. Food and Drug Administration (FDA) for its first product, AMITIZA, to treat chronic idiopathic constipation in adults. Commercialization of AMITIZA began in April 2006 throughout the United States.

Basis of Presentation

The accompanying consolidated financial statements of the Company have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP). The consolidated financial statements include the accounts of Sucampo 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 the current year presentation, primarily with respect to items and matters not required to be disclosed separately in prior periods.

Initial Public Offering

In August 2007, the Company completed its initial public offering of 3,125,000 shares of class A common stock at a public offering price of $11.50 per share, resulting in gross proceeds to the Company of approximately $35.9 million. After deducting 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. An additional 625,000 shares of class A common stock were sold by a selling stockholder of the Company and 562,500 shares were sold under an overallotment option by S&R Technology Holdings, LLC (S&R), which is an entity wholly-owned by the Company's founders. In connection with the initial public offering, the Company implemented an 8.5-to-one stock split of the Company's class A and class B 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 series A convertible 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 the initial public offering, the Company amended its certificate of incorporation to increase the authorized number of shares of class A common stock to 270,000,000 and the authorized number of shares of

class B common stock to 75,000,000 and authorized 5,000,000 shares of undesignated preferred stock, par value $0.01 per share. Upon consummation of the initial public offering, all shares of the Company's series A convertible 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 2008 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 (see Note 10).

2. Summary of Significant Accounting Policies

Cash and Cash Equivalents

For the purpose of the consolidated balance sheets and statements of cash flows, cash equivalents include all highly liquid investments with an original maturity of 90 days or less at the time of purchase.

Restricted Cash

Restricted cash consists of approximately $213,000 at December 31, 2007 and 2006 of cash securing a letter of credit related to the Company's new headquarters lease agreement dated December 18, 2006. This letter of credit renews automatically each year and is required until the lease expires on February 15, 2017.

Short- and Long-Term Investments

Short- and long-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 seven to 49 days through a competitive bidding process known as a "Dutch auction", they have long-term contractual maturities usually exceeding ten years, and therefore are not classified as cash equivalents. These investments are generally classified within current assets because the Company has the ability and the intent to liquidate these securities if needed within a short time frame, usually at the next auction.

The 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 income (loss) in stockholders' equity. The Company assesses the recoverability of its available-for-sale securities and, if impairment is indicated, the Company measures the amount of such impairment by comparing the fair value to the carrying value. Other-than-temporary impairments are included in the statement of operations and comprehensive income (loss).

Interest and dividend income is recorded when earned and included in interest income. Premiums and discounts, if any, on short- and long-term investments are amortized or accreted to maturity and included in interest income. During the years ended December 31, 2007, 2006 and 2005, there were no short- and long-term investments that were purchased at a premium or discount. The Company uses the specific identification method in computing realized gains and losses on sale of its securities. During the years ended December 31, 2007, 2006 and 2005, there were no gains or losses realized on the sale of these investments.

Certain Risks, Concentrations and Uncertainties

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents, restricted cash, investments and receivables. The Company places its cash and cash equivalents, restricted cash and investments with highly rated financial institutions. At December 31, 2007 and 2006, the Company had approximately $85.9 million and $49.9 million, respectively, of cash and cash equivalents, restricted cash and investments in excess of federally insured limits. The Company has not experienced any losses on these accounts related to amounts in excess of insured limits.

As of December 31, 2007, all of the Company's auction rate securities consisted of AAA rated non-mortgage related auction rate securities which are insured against loss of principal and interest by bond insurers whose AAA ratings are under review. As of March 20, 2008, the Company had reduced its investment in auction rate securities by selling $33.2 million of investments at par value. It is uncertain as to when the liquidity issues relating to these investments will improve, although the Company believes as of December 31, 2007 that the investments classified as short-term will be able to be liquidated within the next 12-month period. The Company does not anticipate having to sell the remaining securities in order to operate its business. If this changes, however, the Company may be unable to liquidate some holdings of the auction rate securities and as a result, may suffer losses from these investments. Although a limited secondary market exists for these securities, the Company does not currently intend to use the secondary market to dispose of the auction rate securities. In addition, given the complexity of auction rate securities and their valuations, the Company's estimates of their fair value may differ from the actual amount that the Company would be able to collect in an ultimate sale.

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 100%, 98% and 100% of the Company's total revenues for the years ended December 31, 2007, 2006 and 2005, respectively. Accounts receivable, unbilled accounts receivable and product royalties receivable from Takeda accounted for 99% of the Company's accounts and product royalty receivables at December 31, 2007 and 2006. The Company depends significantly upon the collaboration with Takeda and its activities may be impacted if this relationship is disrupted.

The Company has also entered into an exclusive supply arrangement with R-Tech Ueno, Ltd (R-Tech), an affiliate, to provide it with commercial and clinical supplies of its product and product candidates. Any difficulties or delays in performing the services under this exclusive supply arrangement may cause the Company to lose revenues, delay research and development activities or otherwise disrupt the Company's operations (see Note 9).

Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, restricted cash, short- and long-term investments, receivables, accounts payable and accrued liabilities, approximate their fair values based on their short maturities, independent valuations or internal assessments.

Accounts Receivable

Accounts receivable represent amounts due under the joint collaboration and licensing agreement with Takeda (see Note 10). The Company did not record an allowance for doubtful accounts at December 31, 2007 or 2006 because it believes that its accounts receivable are fully collectible and it does not have a history of credit losses or write-offs of its accounts receivable.

Unbilled Accounts Receivable

Unbilled accounts receivable represent the research and development expenses that are reimbursable by Takeda but have not been billed to Takeda as of the balance sheet date.

Product Royalties Receivable

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

Property and Equipment

Property and equipment are recorded at cost and consist of computer and office machines, furniture and fixtures and leasehold improvements. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Computer and office machines are depreciated over four years and furniture and fixtures are depreciated over seven years. Leasehold improvements are amortized over the shorter of ten years or the life of the lease. Significant additions and improvements are capitalized. Expenditures for maintenance and repairs are charged to earnings as incurred. When assets are sold or retired, the related cost and accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in earnings.

Impairment of Long-lived Assets

When necessary, the Company assesses the recoverability of its long-lived assets by determining whether the carrying value of such assets can be recovered through undiscounted future operating cash flows. If impairment is indicated, the Company measures the amount of such impairment by comparing the fair value to the carrying value. There have been no impairment charges recorded during the years ended December 31, 2007, 2006 or 2005 because there have been no indicators of impairment during those years.

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 capitalized costs as other assets. Upon the completion of the initial public offering in August 2007, the Company reclassified these costs, as well as additional costs of $2.1 million in 2007, 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), Emerging Issues Task Force (EITF) No. 99-19, *"Reporting Revenue Gross as a Principal Versus Net as an Agent"* (EITF 99-19), and EITF No. 00-21, *"Accounting for Revenue Arrangements with Multiple Deliverables"* (EITF 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.

The Company entered into a 16-year joint collaboration and license agreement with Takeda in October 2004 (Takeda Agreement) and a supplemental agreement to the Takeda Agreement (Supplemental Agreement) in February 2006. The Company evaluated the multiple deliverables within the Takeda Agreement and the Supplemental Agreement in accordance with the provisions of EITF 00-21 to determine whether the delivered elements that are the obligation of the Company have value to Takeda on a stand-alone basis and whether objective reliable evidence of fair value of the undelivered items exists. Deliverables that meet these criteria are considered a separate unit of accounting. Deliverables that do not meet these criteria are combined and accounted for as a single unit of accounting. The appropriate recognition of revenue is then applied to each separate unit of accounting.

The Company's deliverables under the Takeda Agreement and the Supplemental Agreement, including the related rights and obligations, contractual cash flows and performance periods, are more fully described in Note 10.

The Takeda Agreement consists of the following key funding streams: an up-front payment, product development milestone payments, reimbursements of development costs and product royalty payments. The cash flows associated with the individual units of accounting from the Takeda Agreement are recognized as revenue using a time-based model when the Company has obligations to perform. Under this model, cash flow streams related to each unit of accounting are recognized as revenue over the estimated performance period. Upon receipt of cash payments, revenue is recognized to the extent the accumulated service time, if any, has occurred. The remainder is deferred and recognized as revenue ratably over the remaining estimated performance period. A change in the period of time expected to complete the deliverable is accounted for as a change in estimate on a prospective basis. Revenue is limited to amounts that are nonrefundable and that Takeda is contractually obligated to pay to the Company.

The Company has other obligations with Takeda to perform research and development activities, for which Takeda reimburses the Company after the services have been performed. The Company recognizes these reimbursable costs as research and development revenue using a similar time-based model over the estimated performance period. The research and development revenue for these obligations is limited to the lesser of the actual reimbursable costs incurred or the straight-line amount of revenue recognized over the estimated performance period. Revenues are recognized for reimbursable costs only if those costs are supported by an invoice or final contract with a vendor.

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.

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.

The Supplemental Agreement consists of the following key funding streams: reimbursements of co-promotion costs based upon a per-day rate and reimbursements of the costs of miscellaneous marketing activities.

Reimbursements of co-promotion costs for the Company's sales force efforts and reimbursements of miscellaneous marketing costs under the Supplemental Agreement 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.

Option fees received for other potential joint collaboration and license agreements with Takeda are not recognized as revenue immediately because the transactions do not represent a separate earnings process. Because there are contingent performance obligations by the Company when and if the options are exercised, the Company's

policy is to recognize revenue immediately upon expiration of the option or to commence revenue recognition upon exercise of the option and continue recognition over the estimated performance period. When recognized, option fees are recorded as contract revenue.

Contract Revenue

Contract revenue related to development and consulting activities with related parties is also accounted for under the time-based model.

Deferred Revenue

Consistent with the Company's policy on revenue recognition, deferred revenue represents cash received in advance for licensing fees, option fees, consulting, research and development contracts and related cost sharing and supply agreements. Such payments are reflected as deferred revenue until revenue can be recognized under the Company's revenue recognition policy. Deferred revenue is classified as current if management believes the Company will be able to recognize the deferred amount as revenue within 12 months of the balance sheet date. At December 31, 2007 and 2006, total deferred revenue was approximately $9.7 million and $20.7 million, respectively.

Total deferred revenue consists of the following as of:

(In thousands)	December 31, 2007	December 31, 2006
Deferred revenue — current	$ 1,062	$ 11,517
Deferred revenue, net of current portion	8,626	9,192
	$ 9,688	$ 20,709
Deferred revenue to related parties — current	$ 419	$ 419
Deferred revenue to related parties, net of current portion	6,862	7,281
Deferred revenue to related parties, included above	$ 7,281	$ 7,700

Research and Development Expenses

Research and development costs are expensed in the period in which they are incurred and include the expenses from third parties who conduct research and development activities pursuant to development and consulting agreements on behalf of the Company. Costs related to the acquisition of intellectual property are expensed as incurred in research and development expenses since the underlying technology associated with such acquisitions is unproven, has not received regulatory approval at its early stage of development and does not have alternative future uses. Milestone payments due under agreements with third-party contract research organizations (CROs) are accrued when it is deemed probable that the milestone event will be achieved.

General and Administrative Expenses

General and administrative costs are expensed as incurred and consist primarily of salaries and other related costs for personnel serving executive, finance, accounting, information technology and human resource functions. Other costs include facility costs and professional fees for legal and accounting services.

Reimbursement of the Company's safety costs under the Supplemental Agreement is recorded as a reduction of safety expenses and is included in general and administrative expenses. The Company has determined, in accordance with EITF 99-19, that it is acting as an agent in this arrangement and, as such, records reimbursements of these expenses on a net basis, offsetting the underlying expenses.

Selling and Marketing Expenses

Selling and marketing expenses are expensed as incurred and consist primarily of salaries and related costs for personnel, sales force fees and certain marketing expenditures.

Milestone Royalties — Related Parties

The milestone royalties — related parties represent royalties paid or due 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 the Company obtains regulatory approval, the Company must pay a $250,000 milestone. The Company must also pay a $500,000 milestone upon the initiation of the first Phase II clinical trial for each compound in each of the three territories covered by the license: (1) North, Central and South America, including the Caribbean, (2) Asia and (3) the rest of the world, and a $1.0 million milestone for the first NDA filing or comparable foreign regulatory filing for each compound in each of the same three territories. Milestone royalties — related parties are expensed as incurred immediately when the related milestones become probable under the guidance of SFAS No. 5, *"Accounting for Contingencies"*. For the years ended December 31, 2007 and 2006, the Company expensed $2.0 million and $1.3 million in milestone royalties — related parties, respectively.

Product Royalties — Related Parties

Product royalties — related parties represent the Company's obligation to SAG for 3.2% of AMITIZA net sales and are expensed as incurred. For the years ended December 31, 2007 and 2006, the Company expensed approximately $4.9 million and $1.2 million in product royalties, respectively. The Company has recorded a corresponding liability of approximately $1.5 million and $361,000 as accrued expenses as of December 31, 2007 and 2006, respectively.

Interest Income

Interest income consists of interest earned on the Company's cash and cash equivalents and short- and long-term investments.

Accrued expenses

As part of the process of preparing financial statements, management estimates accrued expenses. This process involves identifying services that have been performed on the Company's behalf, and then estimating the level of service performed and the associated cost incurred for such services as of each balance sheet date. Accrued expenses include contract service fees, such as those under contracts with clinical monitors, data management organizations and investigators in conjunction with clinical trials, fees to its contract manufacturer for the production of clinical materials and commercial supplies, professional service fees and other activities. Pursuant to management's assessment of the services that have been performed, the Company recognizes these expenses as the services are provided. Such assessments include, but are not limited to: (1) an evaluation by the project manager of the work that has been completed during the period, (2) measurement of progress prepared internally and/or provided by the third-party service provider and (3) analyses of data that justify the progress.

Employee Stock-Based Compensation

On January 1, 2006, the Company adopted SFAS No. 123R, *"Share-Based Payment"* (SFAS 123R), which requires the measurement and recognition of expense for all share-based compensation of employees and directors to be based on estimated fair values of the share-based awards. SFAS 123R requires companies to estimate the fair value of share-based awards on the date of grant using an option-pricing model. The value of the portion of the

award that is ultimately expected to vest is recognized as expense over the requisite service period in the Company's consolidated statement of operations.

The Company adopted SFAS 123R utilizing the modified prospective method. Under this method, the Company's consolidated financial statements for prior periods were not restated to reflect, and do not include, the impact of SFAS 123R. Upon adoption of SFAS 123R, the Company decided to utilize the straight-line method of allocating stock-based compensation expense over the vesting term of the stock-based awards and continued to use the Black-Scholes-Merton Option Pricing Formula which was previously used for the Company's pro-forma information required under SFAS No. 123, *"Accounting for Stock-Based Compensation"* (SFAS 123). The Company's determination of fair value of share-based awards on the date of grant using an option-pricing model is affected by the Company's stock price and assumptions regarding a number of highly complex and subjective variables.

The assumptions used to estimate the fair value of stock options granted for the years ended December 31, 2007 and 2006 were as follows:

	Year Ended December 31,	
	2007	2006
Expected volatility	39.20% - 60.10%	54.0% - 75.7%
Risk-free interest rate	2.99% - 3.59%	4.72% - 4.93%
Expected term (in years)	3.25 - 6.25	2.63 - 5.75
Expected dividend yield	0.00%	0.00%

Expected Volatility: The Company evaluated the assumptions used to estimate expected volatility, including whether implied volatility of its options appropriately reflects the market's expectations of future volatility. The Company determined that it would calculate the expected volatility rate using historical stock prices obtained from comparable publicly-traded companies due to the limited history of the Company's common stock activity.

Risk-Free Interest Rate: The risk-free interest rate is based on the market yield currently available on U.S. Treasury securities with maturity that approximates the expected term of the share-based awards.

Expected Term: Due to the limited history of employee stock options granted by the Company, the Company elected to use the "simplified" method allowed under SAB No. 107, *"Share-Based Payment"* (SAB 107), to calculate its expected term as the share- based awards meet the "plain vanilla" definition described in SAB 107. Under this method, the expected term is the weighted average of the vesting term and the contractual term.

Expected Dividend Yield: The Company has not paid, and does not anticipate paying, any dividends in the foreseeable future.

Employee stock-based compensation expense for the years ended December 2007 and 2006 has been reduced for estimated forfeitures as such expense is based upon awards expected to ultimately vest. 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. During the years ended December 31, 2007 and 2006, the estimated forfeiture rate ranged from 8.0% to 12.0%.

SUCAMPO PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements — (Continued)

Employee stock-based compensation expense under SFAS 123R recorded in the Company's consolidated statements of operations for years ended December 31, 2007 and 2006 was as follows:

(In thousands)	2007	2006
Selling and marketing expense	$ 333	$ 566
General and administrative expense	595	2,708
Founders' stock-based awards (Note 9)	6,112	—
Cumulative out-of-period adjustment	(358)	—
Employee stock-based compensation expense included in operating expenses	$ 6,682	$ 3,274
Employee stock-based compensation expense per basic share of common stock	$ 0.18	$ 0.10
Employee stock-based compensation expense per diluted share of common stock	$ 0.17	$ 0.09

The Company recorded a cumulative out-of-period adjustment of approximately $358,000 during the year ended December 31, 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 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.

Pro forma information for period prior to adoption of SFAS 123R: Through December 31, 2005, the Company had elected to account for stock-based compensation attributable to stock options awarded to employees, directors and officers using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, *"Accounting for Stock Issued to Employees"* (APB 25). Under APB 25 guidance, stock-based compensation expense was based on the intrinsic value of awarded stock options, which is measured as the excess, if any, of the fair market value of the Company's common stock at the date of grant over the exercise price of the option granted. Stock-based compensation, if any, is recognized over the related vesting period.

Had stock-based employee compensation expense been recorded based on the fair value at the grant dates consistent with the recognition method prescribed by SFAS 123, the Company's net loss for the year ended December 31, 2005 would have been changed to the following pro forma amounts:

(In thousands, except per share data)	Year Ended December 31, 2005
Net loss	$ (316)
Add: Stock-based employee compensation expense included in net loss	317
Less: Stock-based employee compensation expense determined under SFAS 123	(531)
Pro forma net loss	$ (530)
Basic and diluted net loss per share	$ (0.01)
Pro forma basic and diluted net loss per share	$ (0.02)

Non-employee Stock-Based Compensation

The Company accounts for non-employee stock-based compensation in accordance with EITF Issue No. 96-18, *"Accounting for Equity Instruments that are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods, or Services"*. In August 2005, the Company granted 510,000 shares to non-

employees. The stock-based compensation expense was calculated at the date of grant using the fair value method and the Black-Scholes-Merton Option Pricing Formula with the following assumptions:

Contractual term	10 years
Risk-free interest rate	4.4%
Expected volatility	75.0%
Expected dividend yield	0%

There were no stock options granted to non-employees during the years ended December 31, 2007 and 2006.

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 the income tax provision 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.

Significant judgment is required in determining the provision for income taxes and, in particular, any valuation allowance recorded against the Company's net deferred tax assets. The Company has recorded a partial valuation allowance, which resulted in a net deferred tax asset of $639,000 and $4.9 million as of December 31, 2007 and December 31, 2006, due to uncertainties related to its ability to utilize a portion of the net deferred tax assets. Significant future events, including marketing approval by the FDA of AMITIZA for the treatment of irritable bowel syndrome with constipation, are not in the control of the Company and will impact the amount of net deferred tax assets that will be utilized. The amount of the valuation allowance has been determined based on management's estimates of income by jurisdiction in which the Company operates, over the periods in which the related deferred tax assets are recoverable.

For all significant transactions between Sucampo, Sucampo Europe and Sucampo Japan, the Company's management has evaluated the terms of the transactions using significant estimates and judgments to ensure that each significant transaction would be on similar terms if the Company completed the transaction with an unrelated party. Although the Company believes there will be no material tax liabilities to the Company as a result of multi-jurisdictional transactions, there can be no assurance that taxing authorities will not assert that transactions were entered into at monetary values other than fair values. If such assertions were made, the Company's intention would be to vigorously defend its positions; however, there can be no assurance that additional liabilities may not occur as a result of any such assertions.

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 consolidated financial statements.

The Company conducts business in the United States, 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 2004, although carryforward tax attributes that were generated prior to 2004 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 uncertain tax positions as a component of the income tax provision. There were no material uncertain tax positions as of December 31, 2007. For the year ended December 31, 2007, there have been no interest and penalties recorded as a component of the income tax provision.

Foreign Currency

The Company translates the assets and liabilities of its foreign subsidiaries, Sucampo Europe and Sucampo Japan, into U.S. dollars at the current exchange rate in effect at the end of the year and maintains the capital accounts of these subsidiaries at the historical exchange rates. The revenue, income and expense accounts of the foreign subsidiaries are translated into U.S. dollars at the average rates that prevailed during the relevant period. The gains and losses that result from this process are included in accumulated other comprehensive income (loss) in the stockholders' equity section of the consolidated balance sheet.

Realized and unrealized foreign currency gains or losses on assets and liabilities denominated in a currency other than the functional currency are included in net income (loss).

Other Comprehensive Income (Loss)

SFAS No. 130, *"Reporting Comprehensive Income (Loss)"*, requires that all components of comprehensive income (loss) be reported in the financial statements during the period in which they are recognized. Comprehensive income (loss) is net income (loss) plus certain other items that are recorded directly to stockholders' equity. The Company has reported the comprehensive income (loss) in the consolidated statements of operations and comprehensive income (loss).

Segment Information

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

Use of Estimates

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

Change in Estimate

Effective June 1, 2006, as a result of new study evaluation requirements released by the Rome III Committee on Functional Gastrointestinal Disorders, an international committee of gastroenterologists, management of the Company concluded that the completion of the final analysis of data from its clinical trials of AMITIZA for the treatment of irritable bowel syndrome with constipation would be extended from December 2006 to mid 2007. Accordingly, the Company determined in June 2006 that the recognition period for associated research and development revenue should be extended. The Company deferred the remaining $11.0 million as of December 31,

2006 and recognized the revenues ratably through the completion date of June 2007. Under the provisions of SFAS No. 154, *"Accounting Changes and Error Corrections, a replacement of APB Opinion No. 20 and FASB Statement No. 3"* (SFAS 154), the Company recognized this as a change in estimate on a prospective basis from June 1, 2006. The effect on net income and basic and diluted net income per share for the year ended December 31, 2006 was as follows:

(In thousands, except for per share data)	
Decrease in revenue and net income	$ 10,951
Impact on basic net income per share	(0.32)
Impact on diluted net income per share	(0.32)

Recent Accounting Pronouncements

In September 2006, the FASB issued SFAS 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. SFAS 157 outlines a common definition of fair value and the new standard intends to make the measurement of fair value more consistent and comparable and improve disclosures about those measures. The Company will need to adopt SFAS 157 for financial statements issued for fiscal years beginning after November 15, 2007. In February 2008, the FASB agreed to delay the effective date of SFAS 157 for all nonfinancial assets and nonfinancial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis, to fiscal years beginning after November 15, 2008. The Company is assessing SFAS 157 and its impact on the consolidated financial statements upon adoption.

In February 2007, the FASB issued SFAS No. 159, *"The Fair Value Option for Financial Assets and Financial Liabilities, Including an Amendment of FASB Statement No. 115"* (SFAS 159). According to this standard, entities will now be permitted to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is assessing SFAS 159 in connection with SFAS 157 and its impact on the consolidated financial statements upon adoption.

In June 2007, the EITF issued EITF Issue 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 consolidated financial statements upon its adoption.

In December 2007, the FASB issued SFAS No. 141 (revised 2007), *"Business Combinations"* (SFAS 141R) and SFAS No. 160, *"Noncontrolling Interests in Consolidated Financial Statements, an amendment of Accounting Research Bulletin No. 51"* (SFAS 160). SFAS 141R will change how business acquisitions are accounted for and will impact financial statements both on the acquisition date and in subsequent periods. SFAS 160 will change the accounting and reporting for minority interests, which will be recharacterized as noncontrolling interests and classified as a component of equity. SFAS 141R and SFAS 160 will be applied to acquisitions that close in years beginning after December 15, 2008. Early adoption is not permitted. SFAS 141R and SFAS 160 will not have any impact on the Company's future consolidated financial statements unless it undertakes an acquisition in the future.

In December 2007, the FASB ratified EITF Issue No. 07-1, *"Accounting for Collaborative Arrangements"* (EITF 07-1). The consensus prohibits the equity method of accounting for collaborative arrangements under APB 18, *"The Equity Method of Accounting for Investments in Common Stock"*, unless a legal entity exists. Payments between the collaborative partners will be evaluated and reported in the income statement based on applicable GAAP. Absent specific GAAP, the participants to the arrangement will apply other existing GAAP by analogy or

apply a reasonable and rational accounting policy consistently. The guidance in EITF 07-1 is effective for periods that begin after December 15, 2008 and will apply to arrangements in existence as of the effective date. The effect of the new consensus will be accounted for as a change in accounting principle through retrospective application. The Company is assessing EITF 07-1 and its impact on the consolidated financial statements upon adoption.

In December 2007, the SEC issued SAB No. 110, "*Share-Based Payment*" (SAB 110), which expresses the views of the SEC regarding the use of a simplified method, as discussed in SAB 107, in developing an estimate of the expected term of plain vanilla share options in accordance with SFAS 123R. In SAB 110, the SEC stated that it understood that the detailed information necessary to calculate an expected term for plain vanilla options may not be widely available by December 31, 2007, as previously discussed within SAB 107. Accordingly, the SEC will continue to accept, under certain circumstances, the use of the simplified method beyond December 31, 2007. As allowed under SAB 110, the Company will continue to use the simplified method in estimating the expected term of its stock options until such time as more relevant detailed information becomes available.

3. Net Income (Loss) per Share

Basic net income (loss) per share is computed by dividing net income (loss) 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 without the impact of potential dilutive common shares outstanding because they would have an anti-dilutive impact on diluted net loss per share.

The computation of net income (loss) per share for the years ended December 31, 2007, 2006 and 2005 is shown below:

	Year Ended December 31,		
(In thousands, except per share data)	**2007**	**2006**	**2005**
Basic net income (loss) per share:			
Net income (loss)	$ 13,190	$ 21,801	$ (316)
Weighted average class A and B common shares outstanding	37,778	34,383	32,601
Basic net income (loss) per share	$ 0.35	$ 0.63	$ (0.01)
Diluted net income (loss) per share:			
Net income (loss)	$ 13,190	$ 21,801	$ (316)
Weighted average class A and B common shares outstanding for diluted net income (loss) per share	37,778	34,383	32,601
Assumed exercise of stock options under the treasury stock method	448	307	—
	38,226	34,690	32,601
Diluted net income (loss) per share	$ 0.35	$ 0.63	$ (0.01)

For the years listed above, the potentially dilutive securities used in the calculations of diluted net income per share as of December 31, 2007 and 2006 are as follows:

	December 31,		
	2007	2006	2005
Series A preferred stock*	—	3,780	—
Employee stock options	908,400	826,200	—
Non-employee stock options	510,000	510,000	—

The following securities were excluded from the computation of diluted net income (loss) per share as their effect would be anti-dilutive as of December 31, 2007, 2006 and 2005:

	December 31,		
	2007	2006	2005
Series A preferred stock*	—	—	3,780
Employee stock options	10,757	15,300	171,000
Non-employee stock options	—	—	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.

4. Short- and Long-Term Investments

As of December 31, 2007, the Company had short- and long-term investments of $61.0 million, consisting of primarily investments in auction rate securities. Auction rate securities are long-term debt instruments that provide liquidity through a Dutch auction process that resets the applicable interest rate at pre-determined calendar intervals, generally every seven to 49 days. This mechanism generally allows existing investors to roll-over their holdings and continue to own their respective securities or liquidate their holdings by selling their securities at par value and therefore are usually classified within current assets.

The Company generally invests in auction rate securities for short periods of time as part of its cash management program. Recent uncertainties in the credit markets have prevented the Company from liquidating certain holdings of auction rate securities subsequent to December 31, 2007 as the amount of securities submitted for sale during the auction exceeded the amount of purchase orders. Although an event of an auction failure does not necessarily mean that a security is impaired, the Company considered various factors to assess the fair value and the classification of the securities as short-term or long-term assets. Such factors include, but are not necessarily limited to, timing of the failed auction, specific security auction history, likelihood of redemptions, restructurings and other similar liquidity events, quality of underlying collateral, rating of the security and the bond insurer and other factors. Such considerations involve a considerable amount of judgment. As a result of the Company's assessment of the market conditions and related facts, including an instance in which the first auction after year-end failed, one security in the amount of $9.4 million was classified as a long-term investment as of December 31, 2007. In other instances, the Company experienced successful auctions shortly after December 31, 2007, but then encountered subsequent failed auctions in February and March 2008 in an aggregate amount of $18.3 million.

As of March 20, 2008, the Company reduced its investment in auction rate securities by selling $33.2 million of investments at par value. The Company continues to hold the remaining securities and is due interest at a higher rate on those securities as to which the auctions have failed than similar securities for which auctions have cleared. These investments consist of AAA-rated non-mortgage related auction rate securities and are insured against loss of principal and interest by bond insurers whose AAA ratings are under review. At December 31, 2007 and 2006, the fair market values of these securities were determined to be the carrying values and no unrealized gains and losses or other-than-temporary impairments were recorded. The Company assessed the fair value of the auction rate securities as of December 31, 2007 through either an independent valuation for securities which it felt were subject to credit risk at December 31, 2007, including an assessment of all key underlying data and assumptions, or through

its own internal assessment of the carrying value and reasonableness of fair values. Considerable judgment was involved in reaching these determinations. If the credit ratings of the issuer, the bond insurer or the collateral deteriorate or the carrying value of the investments decline for any other reason, the Company may need to adjust the carrying value of these investments. Although a limited secondary market exists for these securities, the Company does not intend at this time to use the secondary market to dispose of the auction rate securities.

It is uncertain as to when the liquidity issues relating to these investments will improve, although the Company believes as of December 31, 2007 that the investments classified as short-term will be able to be liquidated within the next 12-month period. Although the Company does not currently anticipate having to sell these securities in order to operate our business, if that were to change, or if the liquidity issues continue over a prolonged period, it might be unable to liquidate some holdings of its auction rate securities and as a result, might suffer losses from these investments. In addition, given the complexity of auction rate securities and their valuations, the Company's estimates of their fair value may differ from the actual amount it would be able to collect in an ultimate sale.

5. Property and Equipment

Property and equipment consists of the following as of:

(In thousands)	December 31, 2007	2006
Computer and office machines	$ 1,036	$ 587
Furniture and fixtures	348	290
Leasehold improvements	1,270	69
Total cost	2,654	946
Less: accumulated depreciation and amortization	(389)	(603)
	$ 2,265	$ 343

Depreciation and amortization expense for the years ended December 31, 2007, 2006 and 2005 was $251,000, $69,000 and $62,000, respectively.

The leasehold improvements as of December 31, 2007 are related to tenant improvements to the Company's new headquarters in Bethesda, Maryland, to which the Company relocated in July 2007.

6. Accrued Expenses

Accrued expenses consist of the following as of:

(In thousands)	December 31, 2007	2006
Research and development costs	$ 4,422	$ 2,460
Selling and marketing costs	384	986
Employee compensation	1,867	1,238
Legal service fees	226	213
Royalty liability — related party	1,536	361
Other expenses	295	160
	$ 8,730	$ 5,418

7. Other Liabilities

Other liabilities consist of the following as of:

(In thousands)	December 31, 2007	December 31, 2006
Deferred leasehold incentive	$ 1,080	$ —
Deferred rent expense	397	33
Lease loss liability	286	—
Other liabilities	5	—
	$ 1,768	$ 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 in the form of reimbursements for leasehold improvement expenditures. The Company recorded a liability for the cash incentives and is amortizing these incentives as reductions of rental expense over the term of the lease, which expires in February 2017, 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. Total future minimum, non-cancelable lease payments under operating leases are as follows as of December 31, 2007:

(In thousands)	
2008	$ 1,555
2009	1,325
2010	969
2011	937
2012	963
2013 and thereafter	4,243
Total minimum lease payments	$ 9,992

Rent expense for all operating leases was $1.1 million, $572,000 and $538,000 for the years ended December 31, 2007, 2006 and 2005, 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 its 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 $432,000 during the year ended December 31, 2007. This is reflected in general and administrative expenses in the accompanying consolidated statement of operations and comprehensive income (loss). At December 31, 2007, the lease loss liability was $286,000.

Research and Development Costs

The Company routinely enters into agreements with third-party CROs to oversee clinical research and development studies provided on an outsourced basis. The Company is not generally contractually obligated to pay the CRO if the service or reports are not provided. Total future estimated costs under these agreements as of December 31, 2007 are as follows:

(In thousands)	
2008	$ 19,999
2009	4,211
	$ 24,210

9. Related Party Transactions

Founders' Stock-Based Awards

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 the grant date, was determined using the Black-Scholes-Merton Option Pricing Formula, 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, resulting in a net expense of $9.2 million for the year ended December 31, 2007.

R-Tech Ueno, Ltd.

On March 7, 2003, the Company entered into an exclusive supply agreement with R-Tech Ueno), affiliated through common ownership. This agreement grants R-Tech the exclusive right to manufacture and supply RUG-

015, a prostone compound, and lubiprostone, and in consideration for such right R-Tech agreed to pay the Company as follows: $1.0 million upon execution of the agreement, $2.0 million upon commencement of a first Phase II lubiprostone trial, $3.0 million upon commencement of a first Phase II RUG-015 trial and $2.0 million upon commencement of the earlier of a second Phase II or a first Phase III RUG-015 trial. Upon execution of the agreement, the Company had already commenced Phase II clinical trials for RUG-015 and lubiprostone, which resulted in an immediate payment of $6.0 million — $1.0 million for the agreement execution, $2.0 million for the commencement of the first Phase II lubiprostone trial, and $3.0 million for the commencement of the first phase II RUG-015 trial. The Company evaluated the $6.0 million in cash receipts from R-Tech and determined the payments were made for the exclusive right to supply inventory to the Company and determined that the amounts should be deferred until commercialization of the drugs begins since this is the point at which the underlying services would commence. Management also was unable to adequately assign value between the two compounds based on the information available to the Company and determined that the full $6.0 million deferred amount would be amortized over the contractual life of the relationship which was equivalent to the estimated commercialization periods of both RUG-015 and lubiprostone (estimated to be through December 2020).

During the year ended December 31, 2005, the Company ceased the development of RUG-015 due to less than satisfactory Phase II results and the Company's Board of Directors approved the Company's decision to discontinue the development of RUG-015. In addition to the Company's Board of Directors, R-Tech also formally approved the abandonment of RUG-015, which was a requirement in the supply agreement terms. Because the Company was unable to assign value to the compounds at the time the agreement was executed and the $6.0 million was received from R-Tech, the full $6.0 million remained deferred at the abandonment of RUG-015.

The abandonment of RUG-015 changed the amortization period of the $6.0 million deferred revenue to the commercialization period of AMITIZA, which began April 2006. The Company has recognized revenue of $418,000 and $314,000 for the years ended December 31, 2007 and 2006, respectively, which is recorded as contract revenue — related parties. During the years ended December 31, 2007, 2006 and 2005, Sucampo purchased from R-Tech $1.6 million, $608,000 and $1.3 million, respectively, of clinical supplies under the terms of this agreement.

On June 24, 2005, the Company entered into a 20-year exclusive manufacturing and supply agreement with R-Tech. The agreement grants R-Tech the exclusive right to manufacture and supply lubiprostone for clinical and commercial supplies within Europe. In consideration of the exclusive rights, R-Tech paid the Company $2.0 million prior to the execution of the agreement on March 31, 2005. Management has determined that the amount should be deferred until such time as the commercial benefit to R-Tech can be realized. As lubiprostone has not been approved within Europe, the $2.0 million has been recorded as non-current deferred revenue as of December 31, 2007 and 2006. During the year ended December 31, 2007, Sucampo Europe purchased from R-Tech $336,000 of clinical supplies under the terms of this agreement. There were no such clinical supply purchases in 2006 or 2005.

On September 7, 2006, the Company's Board of Directors approved an agreement which amends the exclusive manufacturing agreement with R-Tech. This agreement allows the Company to elect a back-up supplier for the supply of drug substance and drug product. In addition, the agreement provides that R-Tech shall maintain at least a six-month inventory of drug substance and at least a six-month inventory of intermediate drug product. Sucampo had no clinical supply purchases from a back-up supplier in 2007 or 2006.

On October 4, 2006, the Company entered into a two-year exclusive clinical manufacturing and supply agreement with R-Tech for two of its drug compounds, cobiprostone and SPI-017. Under the terms of this agreement, R-Tech agreed to manufacture and supply the necessary drug substance and drug product for the purpose of clinical development. Pricing for clinical supplies will be determined on a batch-by-batch basis and shall not exceed a certain mark-up percentage. Unless this agreement is terminated by mutual written consent within 90 days of expiration, it will automatically be renewed for an additional two years. During the years ended December 31, 2007 and 2006, Sucampo purchased from R-Tech $1.8 million and $472,000, respectively, of clinical supplies under the terms of this agreement.

Sucampo AG License Agreements

On June 30, 2006, the Company entered into a restated license agreement with SAG. Under this agreement, SAG has granted to the Company a royalty-bearing, exclusive, worldwide license, with the right to sublicense, to develop and commercialize AMITIZA, cobiprostone and SPI-017 and any other prostone compounds, other than RESCULA, subject to SAG's patents. This agreement supersedes all previous license and data sharing arrangements between the parties and functions as a master license agreement with respect to SAG's prostone technology. The license is perpetual as to AMITIZA, cobiprostone and SPI-017 and cannot be terminated unless the Company defaults in its payment obligations to SAG. If the Company has not committed specified development efforts to any prostone compound other than AMITIZA, 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 the founders, no longer control our company, then the commercial rights to that compound will revert to SAG, subject to a 15-month extension in the case of any compound designate by the Company in good faith as planned for development within that extension period. Under the terms of the license, the Company is obligated to assign to SAG any patentable improvements derived or discovered by the Company relating to AMITIZA, cobiprostone and SPI-017 through the term of the license. In addition, the Company is obligated to assign to SAG any patentable improvements derived or discovered by the Company relating to other licensed prostone compounds prior to the date which is the later of June 30, 2011 or the date on which the founders cease to control the Company. All compounds assigned to SAG under this agreement will be immediately licensed back to the Company on an exclusive basis.

In consideration of the license, the Company is required to make milestone and royalty payments to SAG. The milestone payments include:

- a payment of $500,000 upon the initiation of the first Phase II clinical trial for each compound in each of three territories covered by the license: North, Central and South America (including the Caribbean), Asia and the rest of the world; and
- a payment of $1.0 million for the first NDA filing or comparable foreign regulatory filing for each compound in each of the same three territories.

Upon payment of the above milestones, no further payments will be required either for new indications or formulations or for further regulatory filings for the same compound in additional countries within the same territory. In addition, the Company is required to pay SAG 5% of any up-front or milestone payments that are received from sublicensees.

In addition, the Company is required to pay SAG, on a country-by-country basis, royalty payments of 6.5% of net sales for every product covered by existing patents and, if applicable, thereafter 4.25% of net sales for every product candidate covered by new or improvement patents assigned by the Company to SAG. With respect to sales of AMITIZA in North, Central and South America, including the Caribbean, the rates for these royalty payments are set at 3.2% and 2.1% of net sales, respectively. The product royalties that the Company pays to SAG are based on total product net sales, whether by the Company or a sublicensee, and not on amounts actually received by the Company. The Company expensed $4.9 million and $1.2 million in product royalties to SAG during the years ended December 31, 2007 and 2006, respectively, reflecting 3.2% of AMITIZA net sales during each of these years, which was recorded as product royalties — related parties.

During the years ended December 31, 2006 and 2005 the Company paid SAG $1.1 million and $400,000, respectively, of non-refundable upfront payments for the initial SPI-017 license which were recorded as a research and development expense.

During the year ended December 31, 2005, and in accordance with the initial license agreement for AMITIZA, the Company paid SAG $1.5 million in milestone royalty payments upon receiving $30.0 million in development milestone payments from Takeda for work surrounding AMITIZA. During the year ended December 31, 2006, the Company paid SAG milestone royalty payments of $1.0 million and $250,000 upon receiving a $20.0 million

development milestone payment from Takeda for the FDA approval of AMITIZA. During the year ended December 31, 2007, the Company paid SAG $1.5 million upon receiving a $30.0 million development milestone payment from Takeda for the supplemental NDA for irritable bowel syndrome with constipation and $500,000 upon the initiation of the first Phase IIb dose-ranging study in Japan. These milestone royalty payments to SAG were expensed in the respective period as milestone royalties — related parties.

Sucampo AG Notes Payable

On August 1, 2003, Sucampo Japan entered into a note agreement with SAG pursuant to which Sucampo Japan borrowed $2.5 million. The rate of interest charged on the loan was calculated on an annual basis of 1% in excess of the six-month Tokyo InterBank Offered Rate per annum on the outstanding principal balance. Interest payments were due and payable semi-annually and the note balance of $2.6 million was completely paid off in the year ended December 31, 2006.

On July 1, 2004, Sucampo Europe formalized a note agreement with SAG, related to the advances previously made to Sucampo Europe by SAG for general working capital purposes. The rate of interest charged on the loan was equal to the minimum rate permitted by the Swiss Federal Tax Administration for obligations denominated in British Pounds. Interest payments were due and payable semi-annually and the note balance of $947,000 was completely paid off in the year ended December 31, 2006.

On February 27, 2006, Sucampo Europe entered into a note agreement with SAG, pursuant to which Sucampo Europe borrowed $1.2 million. The rate of interest charged on the loan was equal to the minimum rate permitted by the Swiss Federal Tax Administration for obligations denominated in British Pounds. Interest payments were due and payable semi-annually and the note balance of $1.2 million was completely paid off in the year ended December 31, 2006.

S&R Technology Holdings LLC Notes Payable

On February 20, 2004 and March 29, 2004, Sucampo Japan issued three-year bonds with an aggregate face value of $1,025,970 to S&R. Interest on the bonds was payable every six months at a rate of 0.5% per annum, which represented a market rate of interest in Japan. The bonds were paid in full during 2005 and all conversion rights were cancelled.

On May 7, 2004, Sucampo Europe entered into a three-year facility agreement with S&R pursuant to which Sucampo Europe borrowed $603,919 during May 2004 and $613,925 during July of 2004. The rate of interest charged on the agreement was calculated on the basis of Euro LIBOR plus 0.5% per annum (approximately 2.9% at December 31, 2005). Principal and interest payments were repayable anytime during the three-year term. The note paid in full during 2005.

SUCAMPO PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements — (Continued)

10. Collaboration and License Agreements

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

(In thousands)	Cash Received through December 31, 2007	Revenue Recognized for the Year Ended December 31, 2004	2005	2006	2007	Accounts Receivable at December 31, 2007*	Amount Deferred at December 31, 2007
Collaboration revenue:							
Up-front payment associated with the obligation to participate in joint committees with Takeda	$ 2,375	$ 23	$ 147	$ 147	$ 147	$ —	$ 1,911
Research and development revenue:							
Up-front payment — remainder	$ 17,624	$ 1,356	$ 8,134	$ 6,157	$ 1,977	$ —	$ —
Development milestones	80,000	—	16,154	28,237	35,609	—	—
Reimbursement of research and development expenses	43,048	1,482	14,672	11,988	21,793	6,887	—
Total	$ 140,672	$ 2,838	$ 38,960	$ 46,382	$ 59,379	$ 6,887	$ —

* Includes billed and unbilled accounts receivable.

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.

Upon execution of the Takeda 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:

- 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 the commercial launch in 2006, 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 $27.5 million and $6.6 million for the years ended December 31, 2007 and 2006, respectively. This revenue is recorded as product royalty revenue in the consolidated statements of operations and comprehensive income (loss).

- 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 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 are 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 irritable bowel syndrome with constipation to the FDA in June 2007.

As a result of its assessment of the deliverables under the Takeda Agreement, the Company determined there were four separate units of accounting as of the inception of the Takeda Agreement — (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 irritable bowel syndrome with constipation and participation in the Joint Development Committee. The Company has assessed these required deliverables under the guidance of EITF 00-21 to determine which deliverables are considered separate units of accounting.

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 years ended December 31, 2007, 2006 and 2005, the Company recognized approximately $147,000 of this deferred amount as collaboration revenue on the consolidated statements of operations and comprehensive income (loss). The related deferred revenue as of December 31, 2007 and 2006 was approximately $1.9 million and $2.1 million, respectively.

Since the execution of the Takeda Agreement, 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 irritable bowel syndrome with constipation indications. These deferred amounts were applied towards the unit of accounting that combines the participation in the Joint Development Committee and the development of chronic idiopathic constipation and irritable bowel syndrome with constipation and was recognized over the performance period of developing the chronic idiopathic constipation and irritable bowel syndrome with constipation NDA submissions. The Company completed the development of the chronic idiopathic constipation and irritable bowel syndrome with constipation in June 2007 and filed a supplemental NDA (sNDA) for irritable bowel syndrome with constipation. This was the culmination of the performance period. In June 2007, the Company also recognized as revenue, in full, $30.0 million from Takeda upon the filing of the sNDA for AMITIZA to treat irritable bowel syndrome with constipation.

During the years ended December 31, 2007, 2006 and 2005, the Company recognized approximately $41.1 million, $45.3 million and $39.0 million, respectively, of research and development revenue in the consolidated statements of operations and comprehensive income (loss) relating to this unit of accounting for the development of AMITIZA for chronic idiopathic constipation and irritable bowel syndrome with constipation indications. There was no related deferred revenue as of December 31, 2007. The related deferred revenue as of December 31, 2006 was $11.0 million.

The Company incurred research and development costs for the development of AMITIZA for chronic idiopathic constipation and irritable bowel syndrome with constipation indications of approximately $5.0 million, $11.6 million and $25.9 million for the years ended December 31, 2007, 2006 and 2005, respectively.

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.
- The Company is obligated to perform studies 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 and expects the development costs to exceed $50.0 million.
- 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.

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 are deferred upon receipt and recognized over the estimated performance period to complete the three studies using the time-based model. The estimated completion date is June 2009. During the years ended December 31, 2007 and 2006, the Company recognized approximately $18.3 million and $1.1 million related to these three deliverables as research and development revenue in the consolidated statements of operations and comprehensive income (loss), 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 $4.3 million and $3.4 million of revenues for the years ended December 31, 2007 and 2006, respectively, reflecting these co-promotion reimbursements, which is recorded as co-promotion revenue in the consolidated statements of operations and comprehensive income (loss).

- The Company was obligated to perform miscellaneous marketing activities for AMITIZA, the majority of which would be reimbursed by Takeda. The miscellaneous marketing activities were completed in the first quarter of 2007 and the Company has recorded $158,000 and $779,000 of reimbursements of miscellaneous costs for the years ended December 31, 2007 and 2006, respectively. These amounts are recorded as co-promotion revenue in the consolidated statements of operations and comprehensive income (loss).

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.

11. Stockholders' Equity

Capital Structure

The class A common stock is entitled to one vote per share and, with respect to the election of directors, votes as a separate class and is entitled to elect that number of directors which constitutes ten percent of the total membership of the Board of Directors. The class B common stock is entitled to 10 votes per share and votes as a separate class on the remaining percentage of Board of Directors not voted on by the class A common stockholders. Each holder of record of class B common stock may, in such holder's sole discretion and at such holder's option, convert any whole number or all of such holder's shares of class B common stock into fully paid and non-assessable shares of class A common stock for each share of class B common stock surrendered for conversion. The class B common stock is not transferable, except upon conversion. All of the shares of class B common stock are indirectly owned by the Company's founders.

On March 18, 2005, R-Tech converted all shares of its class B common stock into 4,250,000 shares of class A common stock.

During the year ended December 31, 2006, the Company sold 2,398,758 shares of class A common stock in a private transaction. As a result, the Company received net proceeds of $23.9 million.

In August 2007, the Company completed its initial public offering, consisting of 3,125,000 shares of class A common stock at a public offering price of $11.50 per share. After deducting 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. Upon completion of the initial public offering, all shares of the Company's series A convertible preferred stock were converted into an aggregate of 3,213,000 shares of class A common stock.

Stock Option Plan

On February 15, 2001, the Company adopted the 2001 Stock Incentive Plan (the 2001 Incentive Plan) in order to provide common stock incentives to certain eligible employees, officers and directors, consultants and advisors of the Company. The Board of Directors administers the 2001 Incentive Plan and has sole discretion to grant options. Prior to the Company's initial public offering, the exercise price of each option granted under the 2001 Incentive Plan was determined by the Board of Directors and was to be no less than 100% of the fair market value of

the Company's common stock on the date of grant. Determinations of fair market value of the class A common stock under the 2001 Incentive Plan was made in accordance with methods and procedures established by the Board of Directors prior to the Company's initial public offering. On September 1, 2003, the Board of Directors amended the 2001 Incentive Plan to allow for a maximum of 8,500,000 shares of class A common stock to be issued under all awards, including incentive stock options under the 2001 Incentive Plan. Although at December 31, 2007, 7,332,100 shares were available for future grants under the 2001 Incentive Plan, the Company does not currently plan to issue equity instruments under the 2001 Incentive Plan.

On June 5, 2006, the Company's Board of Directors approved a 2006 Stock Incentive Plan (the 2006 Incentive Plan) and reserved 8,500,000 shares of class A common stock for issuance under that plan. In addition, the Board at that time approved the Employee Stock Purchase Plan (ESPP) and reserved 4,250,000 shares of class A common stock for issuance under the ESPP. At December 31, 2007, a total of 8,232,500 shares were available for future grants under the 2006 Incentive Plan and no shares have been issued under the ESPP. Option awards under the 2006 Incentive Plan are generally granted with an exercise price equal to the closing market price of the Company's stock at the date of grant and they generally vest over four years and have ten-year contractual terms. The stock option awards granted in 2007 generally vest over three years.

On October 18, 2007, the Company's Board of Directors approved an amendment to the 2006 Incentive Plan. The 2006 Incentive Plan includes an "evergreen" provision by which the number of shares of the Company's class A common stock available for issuance under the 2006 Incentive 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 2006 Incentive 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 2006 Incentive Plan as of January 1, 2008, pursuant to the "evergreen" provision, would be zero.

When an option is exercised, the Company issues a new share of class A common stock.

A summary of the employee stock option activity for the year ended December 31, 2007 under the Company's 2001 Incentive Plan is presented below.

(In thousands, except share and per share data)	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2006	826,200	$ 9.02		
Options forfeited	(25,925)	10.00		
Options expired	(159,375)	3.98		
Options outstanding, December 31, 2007	640,900	10.24	7.10	$ 5,192
Options exercisable, December 31, 2007	538,900	10.28	6.89	$ 4,341

A summary of the employee stock option activity for the year ended December 31, 2007 under the Company's 2006 Incentive Plan is presented below:

(In thousands, except share and per share data)	Shares	Weighted Average Exercise Price per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value ($'000)
Options outstanding, December 31, 2006	—	$ —		
Options granted	267,500	14.44		
Options outstanding, December 31, 2007	267,500	14.44	8.83	$ 1,044
Options exercisable, December 31, 2007	67,500	14.44	8.84	$ 264

The weighted average grant date fair value of options granted during the years ended December 31, 2007 and 2006 were $7.19 and $6.41, respectively. There were no employee options granted in 2005. The total intrinsic value of options exercised during the years ended December 31, 2006 and 2005 were $83,000 and $66,000, respectively. As of December 31, 2007, approximately $1.6 million of total unrecognized compensation costs, net of estimated forfeitures, related to non-vested awards are expected to be recognized over a weighted average period of 2.71 years.

The Company granted 510,000 stock options with an exercise price of $5.85 per share to non-employees in August 2005 under the 2001 Incentive Plan and recorded a charge of $3.4 million in conjunction with the grant, which was recorded as a component of research and development expenses. These non-employee stock options vested immediately and have a maximum term of 10 years and the weighted average remaining contractual life of these options as of December 31, 2007 was 7.33 years. The weighted average fair value per share of non-employee options granted for the year ended December 31, 2005 was $6.75.

12. Income Taxes

The provision (benefit) for income taxes consists of the following for the three years ended December 31:

	Year Ended December 31,		
(In thousands)	2007	2006	2005
Current tax provision (benefit):			
Federal	$ 2,900	$ (715)	$ 1,505
State	671	(261)	261
Foreign	—	—	(294)
Total current tax provision (benefit)	3,571	(976)	1,472
Deferred provision (benefit):			
Federal	3,821	(4,182)	(862)
State	441	261	(117)
Foreign	—	—	296
Total deferred provision (benefit)	4,262	(3,921)	(683)
Total income tax provision (benefit)	$ 7,833	$ (4,897)	$ 789

Deferred tax assets, net, consist of the following as of December 31:

(In thousands)	2007	2006
Deferred tax assets:		
Foreign net operating loss carryforwards	$ 1,892	$ 683
Deferred revenue	3,345	7,409
General business credit carryforwards	3,086	4,366
Accrued expenses	1,102	198
Tax benefits on stock options	2,069	2,005
Other	—	124
Gross deferred tax assets	11,494	14,785
Deferred tax liabilities:		
Property and equipment	(42)	(12)
Other	—	(21)
Gross deferred tax liabilities	(42)	(33)
Less: valuation allowance	(10,813)	(9,851)
Net deferred tax assets	$ 639	$ 4,901

The Company continued to assess its ability to realize certain deferred tax assets in the years ended December 31, 2007 and 2006. During the fourth quarter of 2006, the Company performed an analysis of future projections due to an additional year of profitability in 2006 and the expectation of profitability in 2007. As a result of this analysis, the Company reversed an additional $4.9 million of valuation allowance on its U.S. deferred tax assets in 2006. During the fourth quarter of 2007, the Company had an additional release of $204,000. The net deferred tax asset as of December 31, 2007 and 2006 represents the amount which the Company believes is more likely than not to be utilized. As of December 31, 2007, the net deferred tax asset of $639,000 represents the expected realization of deferred tax assets with the carryback of anticipated taxable losses in future years.

The provision (benefit) for income taxes vary from the income taxes provided based on the federal statutory rate of 35%, 34% and 34% as follows for the three years ended December 31:

	Year Ended December 31,		
(In thousands)	2007	2006	2005
Federal tax provision at statutory rate	35.0%	34.0%	34.0%
State taxes, net of federal tax benefit	4.7	2.3	(52.1)
General business credits	(2.6)	(2.6)	(361.0)
Changes in valuation allowance	4.2	(69.6)	272.2
Adjustment to net operating loss carryforward	—	(0.1)	248.3
Changes in other tax matters	(4.0)	7.0	25.3
Total effective tax rate	37.3%	(29.0)%	166.7%

At December 31, 2007 and 2006, the Company had foreign net operating loss carryforwards (NOLs) of $5.4 million and $2.2 million, respectively. Approximately $2.9 million of the foreign NOLs begin to expire in December 2010, and $2.5 million of the foreign NOLs do not expire. At December 31, 2007 and 2006, the Company had U.S. general business credits of $3.1 million and $4.4 million, respectively, which also may be available to offset future income tax liabilities and will expire if not utilized at various dates beginning

December 31, 2022. The realization of the benefits of the tax credits is dependent on sufficient taxable income in future years. Lack of earnings, a change in the ownership of the Company, or the application of the alternative minimum tax rules could adversely affect the Company's ability to utilize these tax credits.

As of December 31, 2007 and 2006, the Company had a valuation allowance on its deferred tax assets of $10.8 million and $9.9 million, respectively. The increase in the valuation allowance of $962,000 was due primarily to an increase in foreign deferred tax assets related to NOLs that are not "more likely than not" to be utilized.

Should the Company determine that it would be able to realize its deferred tax assets in the foreseeable future, an adjustment to the remaining deferred tax assets could cause a material increase to income in the period such determination is made. Significant management judgment is required in determining the period in which the reversal of a valuation allowance should occur. The Company considered all available evidence, both positive and negative, such as historical levels of income and future forecasts of taxable income amongst other items in determining whether a full or partial release of a valuation allowance was required as of December 31, 2007 and 2006. The valuation allowance at December 31, 2007 was approximately $10.8 million, of which $8.4 million related to deferred tax assets in the United States. The Company will continue to evaluate its valuation allowance position in each jurisdiction on a regular basis. Significant future events, including marketing approval by the FDA of AMITIZA for the treatment of irritable bowel syndrome, are not in the Company's control and could affect its future earnings potential and consequently the amount of deferred tax assets that will be utilized. To the extent that the Company determines that all or a portion of its valuation allowance is no longer necessary, the Company will recognize an income tax benefit in the period such determination is made for the reversal of the valuation allowance. Once the valuation allowance is eliminated in whole or in part, it will not be available to offset the Company's future tax provision. Any such reduction of the Company's valuation allowance could have a material impact on the Company's future results from operations and financial condition.

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 the 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 license agreements (see Note 2). Transactions between the segments consist primarily of loans and the provision of research and development services by Sucampo Europe and Sucampo Japan to the domestic entity. Following is a summary of financial information by reportable geographic segment.

SUCAMPO PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements — (Continued)

(In thousands)	United States	Europe	Japan	Intercompany Eliminations	Consolidated
Year Ended December 31, 2007					
Research and development revenue	$ 59,379	$ —	$ —	$ —	$ 59,379
Product royalty revenue	27,536	—	—	—	27,536
Co-promotion revenue	4,411	—	—	—	4,411
Contract revenue — related parties	418	—	840	(840)	418
Collaboration revenue	147	—	—	—	147
Total revenues	91,891	—	840	(840)	91,891
Depreciation and amortization	239	2	10	—	251
Other operating expenses	69,971	1,125	2,985	(848)	73,233
Income (loss) from operations	21,681	(1,127)	(2,155)	8	18,407
Interest income	2,618	1	7	(161)	2,465
Interest expense	—	(57)	(104)	161	—
Other non-operating (expense) income, net	(72)	311	(80)	(8)	151
Income (loss) before income taxes	$ 24,227	$ (872)	$ (2,332)	$ —	$ 21,023
Capital expenditures	$ 2,231	$ —	$ —	$ —	$ 2,231
Year Ended December 31, 2006					
Research and development revenue	$ 46,382	$ —	$ —	$ —	$ 46,382
Product royalty revenue	6,590	—	—	—	6,590
Co-promotion revenue	4,243	—	—	—	4,243
Contract revenue — related parties	314	—	161	(71)	404
Collaboration revenue	147	—	—	—	147
Contract revenue	—	1,500	—	—	1,500
Total revenues	57,676	1,500	161	(71)	59,266
Depreciation and amortization	59	2	8	—	69
Other operating expenses	43,643	518	343	(70)	44,434
Income (loss) from operations	13,974	980	(190)	(1)	14,763
Interest income	2,035	2	4	(65)	1,976
Interest expense	(20)	(71)	(67)	68	(90)
Other non-operating income, net	31	23	201	—	255
Income (loss) before income taxes	$ 16,020	$ 934	$ (52)	$ 2	$ 16,904
Capital expenditures	$ 196	$ —	$ 40	$ —	$ 236

SUCAMPO PHARMACEUTICALS, INC.

Notes to Consolidated Financial Statements — (Continued)

(In thousands)	United States	Europe	Japan	Intercompany Eliminations	Consolidated
Year Ended December 31, 2005					
Research and development revenue	$ 38,960	$ —	$ —	$ —	$ 38,960
Contract revenue — related parties	—	—	98	—	98
Collaboration revenue	147	—	—	—	147
Contract revenue	—	—	1,000	—	1,000
Total revenues	39,107	—	1,098	—	40,205
Depreciation and amortization	61	—	1	—	62
Other operating expenses	38,931	1,475	254	—	40,660
Income (loss) from operations	115	(1,475)	843	—	(517)
Interest income	941	3	136	(34)	1,046
Interest expense	(157)	(139)	(49)	34	(311)
Other non-operating income, net	—	174	81	—	255
Income (loss) before income taxes	$ 899	$ (1,437)	$ 1,011	$ —	$ 473
Capital expenditures	$ 39	$ —	$ —	$ —	$ 39
As of December 31, 2007					
Property and equipment, net	$ 2,182	$ —	$ 83	$ —	$ 2,265
Identifiable assets	$ 114,490	$ 2,381	$ 1,987	$ (8,831)	$ 110,027
As of December 31, 2006					
Property and equipment, net	$ 253	$ 2	$ 88	$ —	$ 343
Identifiable assets	$ 68,943	$ 496	$ 2,544	$ (4,899)	$ 67,084

14. Subsequent Events

On February 19, 2008, the Company announced that Sucampo Europe opened a branch office in Basel, Switzerland. This office will interact with the Swiss Agency for Therapeutic Products on planned future regulatory submissions for clinical research and product marketing as the Company advances AMITIZA through the regulatory process in Europe and other overseas markets.

On February 27, 2008, the Company announced that Sucampo Europe filed a Marketing Authorization Application (MAA) for lubiprostone, 24 micrograms, for the indication of chronic idiopathic constipation in adults in the United Kingdom. Under the Takeda Agreement, if the Company wishes to use data or information developed under the collaboration with Takeda outside the United States or Canada, for example in support of a regulatory filing in Europe or Asia, the Company is obligated to pay to Takeda a one-time fee the first time such data or information is used in specified territories. The amount of the fee for each territory is to be agreed between the Company and Takeda. In connection with the Company's MAA filing for lubiprostone in Europe, the Company agreed with Takeda to make a one-time payment of $1.8 million, which will permit the Company to use in Europe, the Middle East and Africa certain data and information developed under the Takeda Agreement relating to the use of lubiprostone to treat chronic idiopathic constipation. Also, in consideration of the license agreement with SAG, the Company is required to make a $1.0 million payment to SAG for its first NDA filing, or comparable foreign regulatory filing, in each of the three following territories covered by the license agreement: North, Central and South America (including the Caribbean), Asia and the rest of the world. The Company's MAA filing described

above triggered the obligation on the part of the Company to make a $1.0 million payment to SAG for the rest-of-world territory.

On March 5, 2008, the Company entered into a line of credit providing for uncommitted borrowings of up to $30.0 million. The lender has no obligation to make advances under this line of credit but may do so in its sole discretion. The line of credit is collateralized by the Company's short- and long-term investments. Advances made under this line of credit will bear an interest rate based on LIBOR plus a predetermined percentage based on the amount of the advance and other conditions. Borrowings under this line of credit are due upon the demand of the lender and the lender can make a repayment demand at its sole option at any time for any or no reason. As of March 20, 2008, the Company had not drawn down any funds under this line of credit.

15. Quarterly Financial Data (unaudited)

	2007 Quarters Ended			
(In thousands, except per share data)	December 31	September 30	June 30	March 31
Total revenues	$ 17,145	$ 12,852	$ 48,934	$ 12,960
Loss (income) from operations	$ (2,115)	$ (875)	$ 20,859	$ 538
Net (loss) income	$ (735)	$ (474)	$ 13,883	$ 516
Net (loss) income per share:				
Basic	$ (0.02)	$ (0.01)	$ 0.40	$ 0.01
Diluted	$ (0.02)	$ (0.01)	$ 0.39	$ 0.01

	2006 Quarters Ended			
	December 31	September 30	June 30	March 31
Total revenues	$ 11,372	$ 8,294	$ 15,432	$ 24,168
Loss (income) from operations	$ (494)	$ (376)	$ 2,751	$ 12,882
Net income	$ 4,937	$ 82	$ 3,475	$ 13,307
Net income per share:				
Basic	$ 0.14	$ 0.00	$ 0.10	$ 0.41
Diluted	$ 0.14	$ 0.00	$ 0.10	$ 0.40

Net (loss) income per share is computed independently for each of the quarters presented. Therefore, the sum of the quarterly net (loss) income per share information may not equal annual net income (loss) per share.

Schedule II — Valuation and Qualifying Accounts

(In thousands)	Balance at Beginning of Year	Additions Charged to Costs and Expenses	Deductions	Other	Balance at End of Year
Valuation allowance for deferred tax assets:					
2005	$ 20,764	$ 1,675(a)	$ (980)(b)	$ —	$ 21,459
2006	21,459	—	(11,608)(c)	—	9,851
2007	9,851	1,166(a)	(204)(b)	—	10,813

(a) The 2007 and 2005 increases in the valuation allowance are primarily associated with certain foreign net operating losses. This increase in the valuation allowance was based on management's assessment that, due to changing business conditions and the limitation of tax planning strategies, the Company was not likely to fully realize these deferred tax assets.

(b) In 2007 and 2005, the decrease in valuation allowance for deferred tax assets reflects the change in management's judgment related to estimated future taxable income in the United States.

(c) The 2006 decrease in valuation allowance for deferred tax assets reflects primarily the Company's utilization of the deferred tax assets of $6.7 million and a decrease in valuation allowance for deferred tax assets of $4.9 million resulting from a change in management's judgment related to estimated future taxable income in the United States.

Sucampo Pharmaceuticals, Inc.

Exhibit Index

Exhibit Number	Description	Reference
3.1	Restated Certificate of Incorporation	Exhibit 3.1 to the Company's Current Report on Form 8-K (filed August 8, 2007)
3.2	Form of Restated Bylaws	Exhibit 3.4 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
4.1	Specimen Stock Certificate evidencing the shares of class A common stock	Exhibit 4.1 to Registration Statement No. 333-135133, Amendment No. 5 (filed February 1, 2007)
10.1	Amended and Restated 2001 Stock Incentive Plan	Exhibit 10.1 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.2	Amended and Restated 2006 Stock Incentive Plan	Exhibit 10.2 to the Company's Quarterly Report on Form 10-Q (filed November 14, 2007)
10.3	2006 Employee Stock Purchase Plan	Exhibit 10.3 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.4	Form of Incentive Stock Option Agreement for 2006 Stock Incentive Plan	Exhibit 10.4 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.5	Form of Nonstatutory Stock Option Agreement for 2006 Stock Incentive Plan	Exhibit 10.5 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.6	Form of Restricted Stock Agreement for 2006 Stock Incentive Plan	Exhibit 10.6 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.7	Non-employee Director Compensation Summary	Exhibit 10.7 to Registration Statement No. 333-135133, Amendment No. 1 (filed August 11, 2006)
10.8	Employment Agreement, dated June 16, 2006, between the Company and Ryuji Ueno	Exhibit 10.9 to Registration Statement No. 333-135133, Amendment No. 1 (filed August 11, 2006)
10.9	Form of Executive Employment Agreement	Exhibit 10.10 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.10	Indemnification Agreement, dated May 26, 2004, between the Company and Sachiko Kuno	Exhibit 10.11 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.11	Indemnification Agreement, dated May 26, 2004, between the Company and Ryuji Ueno	Exhibit 10.12 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.12	Indemnification Agreement, dated May 26, 2004, between the Company and Michael Jeffries	Exhibit 10.13 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.13	Indemnification Agreement, dated May 26, 2004, between the Company and Hidetoshi Mine	Exhibit 10.14 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.14	Form of Investor Rights Agreement	Exhibit 10.16 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.15	Lease Agreement, dated September 16, 1998, between the Company and Plaza West Limited Partnership, successor in interest to Trizechahn Plaza West Limited Partnership, as amended	Exhibit 10.17 to Registration Statement No. 333-135133, (filed June 19, 2006)

Exhibit Number	Description	Reference
10.16	Sublease Agreement, dated October 26, 2005, between the Company and First Potomac Realty Investment L.P.	Exhibit 10.18 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.17	Amended and Restated Patent Access Agreement, dated June 30, 2006, among the Company, Sucampo Pharma Europe Ltd., Sucampo Pharma, Ltd. and Sucampo AG	Exhibit 10.19 to Registration Statement No. 333-135133, Amendment No. 1 (filed August 11, 2006)
10.18*	Exclusive Manufacturing and Supply Agreement, dated June 23, 2004, between the Company and R-Tech Ueno, Ltd., as amended on October 2, 2006	Exhibit 10.20 to Registration Statement No. 333-135133, Amendment No. 3 (filed October 25, 2006)
10.19*	Collaboration and License Agreement, dated October 29, 2004, between the Company and Takeda Pharmaceutical Company Limited	Exhibit 10.21 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.20*	Agreement, dated October 29, 2004, among the Company, Takeda Pharmaceutical Company Limited and Sucampo AG	Exhibit 10.22 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.21*	Supply Agreement, dated October 29, 2004, among the Company, Takeda Pharmaceutical Company Limited and R-Tech Ueno, Ltd.	Exhibit 10.23 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.22*	Supply and Purchase Agreement, dated January 25, 2006, among the Company, Takeda Pharmaceutical Company Limited and R-Tech Ueno, Ltd.	Exhibit 10.24 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.23*	Supplemental Agreement, dated February 1, 2006, between the Company and Takeda Pharmaceutical Company Limited	Exhibit 10.25 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.24*	Services Agreement, dated February 9, 2006, between the Company and Ventiv Commercial Services, LLC	Exhibit 10.26 to Registration Statement No. 333-135133, (filed June 19, 2006)
10.25	Indemnification Agreement, dated September 7, 2006, between the Company and Timothy Maudlin	Exhibit 10.27 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.26	Indemnification Agreement, dated September 7, 2006, between the Company and Sue Molina	Exhibit 10.28 to Registration Statement No. 333-135133, Amendment No. 2 (filed October 20, 2006)
10.27*	Exclusive Manufacturing and Supply Agreement, dated June 24, 2005, between Sucampo Pharma Europe Ltd. and R-Tech Ueno, Ltd., as amended on October 2, 2006	Exhibit 10.29 to Registration Statement No. 333-135133, Amendment No. 3 (filed October 25, 2006)
10.28*	SPI-8811 and SPI-017 Exclusive Clinical Manufacturing and Supply Agreement, dated October 4, 2006, between the Company and R-Tech Ueno, Ltd.	Exhibit 10.31 to Registration Statement No. 333-135133, Amendment No. 3 (filed October 25, 2006)
10.29	Lease Agreement, dated December 18, 2006, between the Company and EW Bethesda Office Investors, LLC	Included herewith
10.30	Amendment to Employment Agreement, dated November 20, 2006, between the Company and Ryuji Ueno	Exhibit 10.35 to Registration Statement No. 333-135133, Amendment No. 5 (filed February 1, 2007)

Exhibit Number	Description	Reference
10.31	Letter agreement, dated January 29, 2007, between the Company and Takeda Pharmaceutical Company Limited	Exhibit 10.36 to Registration Statement No. 333-135133, Amendment No. 6 (filed May 14, 2007)
10.32	Employment Agreement, effective June 1, 2007, between the Company and Sachiko Kuno	Exhibit 10.37 to Registration Statement No. 333-135133, Amendment No. 8 (filed July 17, 2007)
10.33	Amended Employment Agreement, dated May 12, 2007, between the Company and Mariam E. Morris	Exhibit 10.38 to Registration Statement No. 333-135133, Amendment No. 7 (filed June 25, 2007)
10.34	Indemnification Agreement, dated October 18, 2007, between the Company and Anthony C. Celeste	Exhibit 10.1 to the Company's Quarterly Report on Form 10-Q (filed November 14, 2007)
10.35	Amendment, dated December 14, 2007, to Employment Agreement between the Company and Mariam E. Morris	Exhibit 10.1 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.36	Amendment, dated December 10, 2007, to Employment Agreement between the Company and Mariam E. Morris	Exhibit 10.2 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.37	Amendment, dated December 7, 2007, to Employment Agreement between the Company and Brad Fackler	Exhibit 10.3 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.38	Amendment, dated December 6, 2007, to Employment Agreement between the Company and Gayle Dolecek	Exhibit 10.4 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.39	Amendment, dated December 5, 2007, to Employment Agreement between the Company and Kei Tolliver	Exhibit 10.5 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.40	Amendment, dated November 26, 2007, to Employment Agreement between the Company and Ryuji Ueno	Exhibit 10.6 to the Company's Current Report on Form 8-K (filed December 14, 2007)
10.41	Credit Line Agreement, dated March 5, 2008, between the Company and UBS Bank USA	Included herewith
23.1	Consent of PricewaterhouseCoopers LLC, Independent Registered Public Accounting Firm	Included herewith
31.1	Certification of the Principal Executive Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002	Included herewith
31.2	Certification of the Principal Financial Officer, as required by Section 302 of the Sarbanes-Oxley Act of 2002	Included herewith
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	Included herewith
32.2	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	Included herewith

Compensatory plan, contract or arrangement.

* Confidential treatment has been requested for portions of this exhibit.

Exhibit 10.29

DEED OF LEASE

BY AND BETWEEN

EW BETHESDA OFFICE INVESTORS, LLC,
a Delaware limited liability company

AS LANDLORD

AND

SUCAMPO PHARMACEUTICAL, INC.,
a Delaware corporation

AS TENANT

DATED DECEMBER 18, 2006

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INDEX OF DEFINED TERMS

BASIC LEASE INFORMATION

Lease Date:	December 18, 2006
Landlord:	EW BETHESDA OFFICE INVESTORS, LLC
Landlord's Address:	c/o UBS Realty Investors LLC 242 Trumbull Street Hartford, Connecticut 06103-1205 All notices sent to Landlord under this Lease shall be sent to the above address, with copies to: LPC Commercial Services, Inc. 4520 East-West Highway Bethesda, MD 20814
Tenant:	SUCAMPO PHARMACEUTICAL, INC., a Delaware corporation
Tenant's Contact Person:	Kei Tolliver
Tenant's Address and Telephone Number:	Before Lease Commencement: 4733 Bethesda Avenue, Suite 450 Bethesda, MD 20814 (301) 961-3400 After Lease Commencement: At the Premises Attn: Chief Financial Officer (301) 961-3400
Premises Square Footage:	Approximately Twenty-Five Thousand Sixteen (25,016) rentable square feet
Premises Address:	4520 East-West Highway, Suite 300 Bethesda, Maryland 20814
Building:	4520 East-West Highway Bethesda, Maryland 20814
Building Square Footage:	Approximately One Hundred Seventy-four Thousand Four Hundred Forty-eight (174,448)
Tenant's Proportionate Share of Building:	14.34%
Length of Term:	One Hundred Seventeen (117) months

Commencement Date: May 15, 2007

Rent Commencement Date: October 15, 2007

Expiration Date: February 15, 2017

Base Rent:	Months	Annual Base Rate	Annual Base Rent	Monthly Base Rent
	1-5	$ 0	$ 0	$ 0
	6-17	$34.00	$ 850,544.00	$70,878.67
	18-29	$35.02	$ 876,060.32	$73,005.03
	30-41	$36.07	$ 902,327.12	$75,193.93
	42-53	$37.15	$ 929,344.40	$77,445.37
	54-65	$38.26	$ 957,112.16	$79,759.35
	66-77	$39.41	$ 985,880.56	$82,156.71
	78-89	$40.59	$1,015,399.44	$84,616.62
	90-101	$41.81	$1,045,918.96	$87,159.91
	102-113	$43.06	$1,077,188.96	$89,765.75
	114-117	$44.35	$1,109,459.60*	$92,454.97

* Annualized

Prepaid Base Rent: Seventy Thousand Eight Hundred Seventy-eight and 67/100 Dollars ($70,878.67)

Month(s) to which Prepaid Base Rent will be Applied: Sixth (6th) month of the Term

Base Year: 2007 calendar year

Security Deposit: Two Hundred Twelve Thousand Six Hundred Thirty-six and 01/100 Dollars ($212,636.01)

Permitted Use: General office use consistent with the standards of a “Class A” office building.

Parking Spaces: Fifty (50) spaces at the then prevailing market rate, currently $150 per month for exclusive and designated parking spaces, and $100 per month for nonexclusive and undesignated parking spaces. Two (2) of the foregoing spaces may be reserved by Tenant.

DEED OF LEASE

THIS DEED OF LEASE AGREEMENT is made and entered into by and between Landlord and Tenant on the Lease Date. The defined terms used in this Lease which are defined in the Basic Lease Information attached to this Deed of Lease **("Basic Lease Information")** shall have the meaning and definition given them in the Basic Lease Information. The Basic Lease Information, the exhibits, the addendum or addenda described in the Basic Lease Information, and this Deed of Lease are and shall be construed as a single instrument and are referred to herein as the **"Lease".**

1. DEMISE

In consideration for the rents and all other charges and payments payable by Tenant, and for the agreements, terms and conditions to be performed by Tenant in this Lease, LANDLORD DOES HEREBY LEASE TO TENANT, AND TENANT DOES HEREBY HIRE AND TAKE FROM LANDLORD, the Premises described below (the **"Premises"),** upon the agreements, terms and conditions of this Lease for the Term hereinafter stated.

2. PREMISES

The Premises demised by this Lease are located in that certain building (the **"Building"**) specified in the Basic Lease Information, which Building is located in that certain real estate development (the **"Project"**) specified in the Basic Lease Information. The Premises has the address and contains the square footage specified in the Basic Lease Information. All measurements set forth in this Lease are measured in accordance with the BOMA Standard Method of Measurement for Office Buildings, American National Standard z.65-1-1996, which square footage may be verified by Tenant's architect at Tenant's sole cost and expense. The location and dimensions of the Premises are depicted on ***Exhibit A,*** which is attached hereto and incorporated herein by this reference. Tenant shall have the non-exclusive right (in common with the other tenants, Landlord and any other person granted use by Landlord) to use the Common Areas (as hereinafter defined), except that with respect to the Project's parking areas (the **"Parking Areas"),** Tenant shall have only the rights, if any, set forth in Paragraph 44 below. For purposes of this Lease, the term **"Common Areas"** shall mean all areas and facilities outside the Premises and within the exterior boundary line of the Project that are, from time to time, provided and designated by Landlord for the non-exclusive use of Landlord, Tenant and other tenants of the Project and their respective employees, guests and invitees.

Tenant understands and agrees that the Premises shall be leased by Tenant in its as-is condition without any improvements or alterations by Landlord unless Landlord has expressly agreed to make such improvements or alterations in a tenant improvement work agreement attached hereto, if at all, as ***Exhibit B.*** If Landlord has agreed to make any such improvements or alterations, then the Premises demised by this Lease shall include any Tenant Improvements (as that term is defined in the aforesaid tenant improvement work agreement) to be constructed by Landlord within the interior of the Premises. Landlord shall construct any Tenant Improvements on the terms and conditions set forth in ***Exhibit B,*** if attached hereto. Landlord and Tenant agree to and shall be bound by the terms and conditions of ***Exhibit B,*** if any.

Landlord has the right, in its sole discretion, from time to time, to: (a) make changes to the Common Areas, the Building and/or the Project, including, without limitation, changes in the

location, size, shape and number of driveways, entrances, parking spaces, parking areas, ingress, egress, direction of driveways, entrances, hallways, corridors, lobby areas and walkways; (b) close temporarily any of the Common Areas for maintenance purposes so long as reasonable access to the Premises remains available; (c) add additional buildings and improvements to the Common Areas or remove existing buildings or improvements therefrom; (d) use the Common Areas while engaged in making additional improvements, repairs or alterations to the Project or any portion thereof, and (e) do and perform any other acts, alter or expand, or make any other changes in, to or with respect to the Common Areas, the Building and/or the Project as Landlord may, in its sole discretion, deem to be appropriate. Without limiting the foregoing, Landlord reserves the right from time to time to install, use, maintain, repair, relocate and replace pipes, ducts, conduits, wires, and appurtenant meters and equipment for service to the Premises or to other parts of the Building which are above the ceiling surfaces, below the floor surfaces, within the walls and in the central core areas of the Building which are located within the Premises or located elsewhere in the Building. In connection with any of the foregoing activities of Landlord, Landlord shall (i) use reasonable efforts while conducting such activities to minimize any interference with Tenant's use of the Premises; (ii) not increase Tenant's Proportionate Share of the Building or the Project; and (iii) use commercially reasonable efforts to give Tenant reasonable prior notice of its intention to work on the Premises.

No rights to any view or to light or air over any property, whether belonging to Landlord or any other person, are granted to Tenant by this Lease. If at any time any windows of the Premises are temporarily darkened or the light or view therefrom is obstructed, the same shall be without liability to Landlord and without any reduction or diminution of Tenant's obligations under this Lease.

3. TERM

The term of this Lease (the "**Term**") shall be for the period of months and days specified in the Basic Lease Information, commencing on May 15, 2007 (the "**Commencement Date**"). Promptly after the Commencement Date, Landlord and Tenant shall promptly execute a Commencement and Expiration Date Memorandum in the form attached hereto as *Exhibit C,* wherein the parties shall specify the Commencement Date, the date on which the Term expires (the "**Expiration Date**") and the date on which Tenant is to commence paying Rent (as defined below).

4. RENT

(a) **Base Rent.** Commencing on the Rent Commencement Date, Tenant shall pay to Landlord, in advance on the first day of each month thereafter, and, except as required by this Lease, without further notice or demand and without abatement, offset, rebate, credit or deduction for any reason whatsoever, the monthly installments of rent specified in the Basic Lease Information (the **"Base Rent").**

Upon execution of this Lease, Tenant shall pay to Landlord the Security Deposit and Prepaid Rent to be applied toward Base Rent for the month of the Term specified in the Basic Lease Information.

As used in this Lease, the term "**Additional Rent**" shall mean all sums of money, other than Base Rent, that shall become due from and payable by Tenant pursuant to this Lease.

(b) **Additional Rent.**

(1) During the Term, in addition to the Base Rent, Tenant shall pay to Landlord as Additional Rent, in accordance with this Paragraph 4, (i) Tenant's Proportionate Share(s) of Operating Expenses (as defined below), (ii) Tenant's Proportionate Share(s) of Insurance Expenses (as defined below) attributable to each Computation Year, (iii) Tenant's Proportionate Share(s) of Utility Expenses (as defined below) attributable to each Computation Year, and (iv) Tenant's Proportionate Share(s) of Taxes (as defined below) attributable to each Computation Year.

(2) As used in this Lease, the following terms shall have the meanings specified:

(A) **"Operating Expenses"** means the total costs and expenses paid or incurred by Landlord in connection with the operation, maintenance, management and repair of the Premises, the Building and/or the Project or any part thereof, including, without limitation, all the following items:

(i) *Common Area Operating Expenses.* All costs to operate, maintain, repair, replace, supervise, insure and administer the Common Areas, including, without limitation, any Parking Areas owned by Landlord for the use of tenants, and further including, without limitation, supplies, materials, labor and equipment used in or related to the operation and maintenance of the Common Areas, including Parking Areas (including, without limitation, all costs of restriping Parking Areas, but exclusive of resurfacing costs), signs and directories on the Building and/or the Project, landscaping (including, without limitation, maintenance contracts and fees payable to landscaping consultants), amenities, sprinkler systems, sidewalks, walkways, driveways, curbs, lighting systems and security services, if any, provided by Landlord for the Common Areas, and any charges, assessments, costs or fees levied by any association or entity of which the Project or any part thereof is a member or to which the Project or any part thereof is subject.

(ii) *Parking Charges; Public Transportation Expenses.* Any parking charges or other costs levied, assessed or imposed by, or at the direction of, or resulting from statutes or regulations, or interpretations thereof, promulgated by any governmental authority or insurer in connection with the use or occupancy of the Building or the Project after the Commencement Date, and the cost of maintaining any public transit system, vanpool, or other public or semi-public transportation imposed upon Landlord's ownership and operation of the Building and/or the Project.

(iii) *Maintenance and Repair Costs.* All costs to maintain, repair, and replace the Premises, the Building and/or the Project or any part thereof and the personal property used in conjunction therewith, including insurance deductibles and, without limitation, (a) all costs paid under third party maintenance, management and service agreements such as contracts for janitorial, security and refuse removal, (b) all costs to maintain and repair the roof coverings of the Building or the Project or any part thereof, (c) all costs to maintain, repair and replace the heating, ventilating, air conditioning, plumbing, sewer, drainage, electrical, fire protection, escalator, elevator, life safety and security systems and other mechanical, electrical and communications systems and equipment serving the Premises, the Building and/or the Project or any part thereof (collectively, the **"Systems"),** (d) the cost of all cleaning and janitorial services

and supplies, the cost of window glass replacement and repair, (e) the cost of maintenance and replacement of machinery, tools and equipment (if owned by Landlord) and for rental paid for such machinery, tools and equipment (if rented) used in connection with the operation or maintenance of the Building, and (f) subject to 4(b)(2)(A)(vi) below, costs for improvements made to the Project which, although capital in nature, Landlord determines, in its sole discretion, are necessary to enhance the security systems and improve security measures at the Project.

(iv) *Life Safety and Security Costs.* All costs to install, maintain, repair and replace all life safety systems, including, without limitation, (a) all fire alarm systems, serving the Premises, the Building and/or the Project or any part thereof (including all third party maintenance contracts and fees payable to life safety consultants) whether such systems are or shall be required by Landlord's insurance carriers, Laws (as hereinafter defined) or otherwise, and (b) all costs of security and security systems at the Project, including, without limitation; (i) wages and salaries of all third-party employees engaged in the security of the Project; (ii) all supplies, materials, equipment, and devices used in the security of the Project, and any upgrades thereto; and (iii) all third party service or maintenance contracts with independent contractors for Project security, including, without limitation, alarm service personnel, security guards, watchmen, and any other security personnel.

(v) *Management and Administration.* All costs for management and administration of the Premises, the Building and/or the Project or any part thereof, including, without limitation, a property management fee, accounting, auditing, billing, postage, salaries and benefits for all employees (up to and including the level of property manager) and third party contractors engaged in the management, operation, maintenance, repair and protection of the Building and the Project, whether located on the Project or off-site, payroll taxes and legal and accounting costs, fees for licenses and permits related to the ownership and operation of the Project, and office rent for the Building and/or Project management office or the rental value of such office if it is located within the Building and/or Project (but only for an office of 1,000 rentable square feet or less).

(vi) *Capital Improvements.* Amounts paid for capital improvements or other costs incurred in connection with the Project (a) which are intended to effect economies in the operation or maintenance of the Project, or any portion thereof, or (b) relate to an expenditure which is required to comply with changes in governmental law or regulation which occur after the Commencement Date; and then in both cases only to the extent in any one year of the amount equal to the total expenditure divided by the useful life of the improvement which requires such cost.

(vii) Operating Expenses shall not include the following: original construction costs of the Building; expenses for repairs, replacements or maintenance arising from the initial construction of the Building to the extent such expenses are either (i) reimbursed to Landlord by virtue of warranties from contractors or suppliers; or (ii) result by reason of deficiencies in design or workmanship, except conditions resulting from ordinary wear and tear; cost of expenses associated with leasing space in the Building or the sale of any interest in the Building, including, without limitation, advertising and marketing, commissions or any amounts paid for or on behalf of any tenant such as space planning, moving costs, rental and other tenant concessions; amounts paid to any partners, shareholder, officer, or director of Landlord, for salary or other compensation; reserves for repairs, maintenance, and replacements; any amounts

paid to any person, firm, or corporation related to or otherwise affiliated with Landlord or any general partner, officer or director of Landlord or any of its general partners to the extent they materially exceed arms-length competitive prices paid in the Metropolitan Washington, D.C. area. for the services or goods provided; costs of electricity outside normal business hours sold to tenants of the Building by Landlord; costs of repairs incurred by reason of fire or other casualty or condemnation whether or not Landlord receives compensation therefore through the proceeds of insurance or condemnation awards (exclusive of insurance deductibles); costs of renovating or otherwise improving space for new or existing tenants or in renovating space vacated by any tenant or any other work which Landlord performs for any tenant; interest, penalties or liens arising by reason of Landlord's failure to timely pay any operating expense (including ground rent) or real estate tax due; compensation paid to clerks, attendants, sales persons, or other persons on or in commercial concessions (including the parking garage) operated in the Building; costs relating to maintaining Landlord's existence, as a corporation, partnership or other entity, such as trustee's fees, annual fees, corporate or partnership organization or administration expenses, deed recordation expenses, and legal and accounting fees (other than with respect to building operations); costs (including fines and penalties imposed) incurred by Landlord to remove any hazardous or toxic wastes, materials or substances from either the Building or land; the cost of any "tap fees" or one time lump sum sewer or water connection fees for the Building; Landlord's general corporate overhead and general and administrative expenses; costs directly resulting from the gross negligence or willful misconduct of Landlord or its agents, contractors or employees; salaries, wages, or other compensation paid to employees of any property management organization being paid a fee by Landlord for its services where such services are covered by a management fee; costs related to any Building or land not included in the Property, including any allocation of costs incurred on a shared basis, such as centralized accounting costs, unless the allocation is made on a reasonable and consistent basis that fairly reflects the share of any costs actually attributable to the Property; costs incurred to remedy, repair, or otherwise correct any defects or violations of the Building which exist as of the Commencement Date; costs for sculpture, paintings and other art objects; increased insurance premiums caused by Landlord's or any other tenant's hazardous acts; cost of any item, service or repair to the extent Landlord is actually reimbursed by a warranty, guaranty or insurance policy; improvements to common areas specifically undertaken by Landlord as inducements or concessions in order to lease space to new or existing tenants, which would not have otherwise been undertaken; rental costs and related expenses for leasing systems or equipment that would be considered a capital improvement or expenditure if purchased; and costs of selling, syndicating, financing, mortgaging or hypothecating any part of or interest in the Property.

Notwithstanding anything in this Paragraph 4(b) to the contrary, Insurance Expenses, Utility Expenses and Taxes shall not be deemed to constitute "Operating Expenses" for purposes of this Paragraph 4(b)(2)(A).

(B) **"Insurance Expenses"** means the total costs and expenses paid or incurred by Landlord in connection with the obtaining of insurance on the Premises, the Building and/or the Project or any part thereof or interest therein, including, without limitation, premiums for "all risk" fire and extended coverage insurance, commercial general liability insurance, rent loss or abatement insurance, earthquake insurance, flood or surface water coverage, and other insurance as Landlord deems necessary in its sole discretion, and any deductibles paid under policies of any such insurance. The foregoing shall not be deemed an agreement by Landlord to carry any particular insurance relating to the Premises, Building, or Project.

(C) **“Utility Expenses”** means the cost of all electricity, water, gas, sewers, oil and other utilities (collectively, **“Utilities"),** including any third party surcharges imposed, serving the Premises, the Building and the Project or any part thereof that are not separately metered to Tenant or any other tenant, and any third party amounts, taxes, charges, surcharges, assessments or impositions levied, assessed or imposed upon the Premises, the Building or the Project or any part thereof, or upon Tenant’s use and occupancy thereof, as a result of any rationing of Utility services or restriction on Utility use affecting the Premises, the Building and/or the Project, as contemplated in Paragraph 5 below.

(D) **“Taxes”** means all real estate taxes and assessments, which shall include any form of tax, assessment (including any special or general assessments and any assessments or charges for Utilities not otherwise included under Section 4(c) or similar purposes included within any tax bill for the Building or the Project or any part thereof, including, without limitation, entitlement fees, allocation unit fees and/or any similar fees or charges), fee, license fee, business license fee, levy, penalty (if a result of Tenant’s delinquency), sales tax, rent tax, occupancy tax or other tax (other than net income, estate, succession, inheritance, transfer or franchise taxes), imposed by any authority having the direct or indirect power to tax, or by any city, county, state or federal government or any improvement or other district or division thereof, whether such tax is determined by the area of the Premises, the Building and/or the Project or any part thereof, or the Rent and other sums payable hereunder by Tenant or by other tenants, including, but not limited to, (i) any gross income or excise tax levied by any of the foregoing authorities, with respect to receipt of Rent and/or other sums due under this Lease; (ii) upon any legal or equitable interest of Landlord in the Premises, the Building and/or the Project or any part thereof, (iii) upon this transaction or any document to which Tenant is a party creating or transferring any interest in the Premises, the Building and/or the Project; (iv) levied or assessed in lieu of, in substitution for, or in addition to, existing or additional taxes against the Premises, the Building and/or the Project, whether or not now customary or within the contemplation of the parties; or surcharged against the Parking Areas. “**Taxes**” shall also include reasonable legal and consultants’ fees, costs and disbursements incurred in connection with proceedings to contest, determine or reduce taxes, Landlord specifically reserving the right, but not the obligation, to contest by appropriate legal proceedings the amount or validity of any taxes. Tenant will receive Tenant’s Proportionate Share of any awards Landlord receives in connection with tax contests which relate to a period during the Lease Term.

(E) **“Base Year”** shall mean the calendar year specified in the Basic Lease Information.

(F) **“Base Operating Expenses”** shall mean the amount of Operating Expenses for the Base Year.

(G) **“Base Insurance Expenses”** shall mean the amount of Insurance Expenses for the Base Year.

(H) **“Base Taxes”** shall mean the amount of Taxes for the Base Year.

(I) **“Base Utility Expenses”** shall mean the amount of Utility Expenses for the Base Year. Notwithstanding anything to the contrary contained in this Lease, Base Utility Expenses shall not include increases in utility costs due to extraordinary

circumstances, including, without limitation, conservation, bond and/or debt repayment surcharges, charges of a one-time nature, boycotts, strikes, embargoes or other events resulting in shortages.

(J) **"Computation Year"** shall mean each twelve (12) consecutive month period commencing January 1 of each year during the Term, provided that Landlord, upon notice to Tenant, may change the Computation Year from time to time to any other twelve (12) consecutive month period, and, in the event of any such change, Tenant's Proportionate Share(s) of Operating Expenses, of Insurance Expenses, of Utility Expenses and of Taxes shall be equitably adjusted for the Computation Years involved in any such change.

(K) Landlord shall have no obligation to return, rebate or credit to Tenant any refund, rebate, or return of Operating Expenses received by Landlord after the date which is 18 months after the Expiration Date of the Lease. Tenant shall have no obligation to pay any Operating Expense charged by Landlord after the date which is 18 months after the Expiration Date of this Lease.

(c) **Payment of Additional Rent.**

(1) Within ninety (90) days of the end of each Computation Year or as soon thereafter as practicable (but in no event more than two hundred seventy (270) days after the end of each Computation Year), Landlord shall give to Tenant notice of Landlord's estimate of the total amounts that will be payable by Tenant under Paragraph 4(b) for the following Computation Year, and Tenant shall pay such estimated Additional Rent on a monthly basis, in advance, on the first day of each month. Tenant shall continue to make said monthly payments until notified by Landlord of a change therein. If at any time or times Landlord determines that the amounts payable under Paragraph 4(b) for the current Computation Year will vary from Landlord's estimate given to Tenant, Landlord, by notice to Tenant, may reasonably revise the estimate for such Computation Year, and subsequent payments by Tenant for such Computation Year shall be based upon such revised estimate. By April 1 of each calendar year following the initial Computation Year, Landlord shall endeavor to provide to Tenant a statement showing the actual Additional Rent due to Landlord for the prior Computation Year. If the total of the monthly payments of Additional Rent that Tenant has made for the prior Computation Year is less than the actual Additional Rent chargeable to Tenant for such prior Computation Year, then Tenant shall pay the difference in a lump sum within thirty (30) days after receipt of such statement from Landlord. Any overpayment by Tenant of Additional Rent for the prior Computation Year shall, at Tenant's option, be either credited towards the Additional Rent next due or returned to Tenant in a lump sum payment within thirty (30) days after delivery of such statement.

(2) Landlord's then-current annual operating and capital budgets for the Building and the Project or the pertinent part thereof shall be used for purposes of calculating Tenant's monthly payment of estimated Additional Rent for the current year, subject to adjustment as provided above. Landlord shall make the final determination of Additional Rent for the year in which this Lease terminates as soon as possible after termination of such year. Even though the Term has expired and Tenant has vacated the Premises, with respect to the year in which this Lease expires or terminates, Tenant shall remain liable for a period of 18 months after the expiration of the Lease for payment of any amount due to Landlord in excess of the

estimated Additional Rent previously paid by Tenant, and, conversely, Landlord shall promptly return to Tenant any overpayment. Failure of Landlord to submit statements as called for herein shall not be deemed a waiver of Tenant's obligation to pay Additional Rent as herein provided.

(3) With respect to Operating Expenses, Insurance Expenses, Utility Expenses or Taxes which Landlord allocates to the Building, Tenant's **"Proportionate Share"** shall be the percentage set forth in the Basic Lease Information as Tenant's Proportionate Share of the Building, as adjusted by Landlord from time to time for a remeasurement of or changes in the physical size of the Premises or the Building, whether such changes in size are due to an addition to or a sale or conveyance of a portion of the Building or otherwise; provided, however, that no such remeasurement may occur during the original Term, unless due to Tenant leasing additional space in the Building.

(4) In the event the average occupancy level of the Building or the Project for the Base Year or any Computation Year is not ninety-five percent (95%) or more of full occupancy, then the Operating Expenses that vary with occupancy for such year shall be apportioned among the tenants by the Landlord to reflect those costs which would have occurred had the Building or the Project, as applicable, been ninety-five percent (95%) occupied during such year.

(5) Without limiting the terms of Paragraph 4(c) above, Landlord reserves the right from time to time to remeasure the Premises, the Building and/or the Project in accordance with the current or revised standards promulgated from time to time by the Building Owners and Managers Association (BOMA) or the American National Standards Institute or other generally accepted measurement standards utilized by Landlord and to thereafter adjust the Proportionate Share(s) of Tenant and any other affected tenants of the Building and/or Project.

(d) **General Payment Terms**. The Base Rent, Additional Rent and all other sums payable by Tenant to Landlord hereunder, any late charges assessed pursuant to Paragraph 6 below and any interest assessed pursuant to Paragraph 46 below, are referred to as the **"Rent".** All Rent shall be paid in lawful money of the United States of America. Checks are to be made payable to EW Bethesda Office Investors, LLC, and shall be delivered to: LPC Commercial Services, Inc., 4520 East-West Highway, Bethesda, MD 20814, or to such other person or place as Landlord may, from time to time, designate to Tenant in writing. The Rent for any fractional part of a calendar month at the commencement or termination of the Term shall be a prorated amount of the Rent for a full calendar month based upon a thirty (30) day month.

(e) **Statements Binding.** Every statement given by Landlord pursuant to paragraph (c) of this Paragraph 4 shall be conclusive and binding upon Tenant unless (i) within one hundred twenty (120) days after the receipt of such statement Tenant shall notify Landlord that it disputes the correctness thereof, specifying the particular respects in which the statement is claimed to be incorrect, and (ii) if such dispute shall not have been settled by agreement, Tenant shall submit the dispute to arbitration within one hundred twenty (120) days after receipt of the statement. Pending the determination of such dispute by agreement or arbitration as aforesaid, Tenant shall, within thirty (30) days after receipt of such statement, pay Additional Rent in accordance with Landlord's statement and such payment shall be without prejudice to Tenant's position. If the dispute shall be determined in Tenant's favor, Landlord shall forthwith pay Tenant the amount of Tenant's overpayment of Additional Rent resulting from compliance with Landlord's statement.

(f) **Audit Rights.** Provided Tenant notifies Landlord in accordance with the terms of paragraph (e) above that Tenant disputes a statement received from Landlord, Tenant or its CPA (as defined below) shall have the right, at Tenant's sole cost and expense, provided Tenant utilizes a Certified Public Accountant (the "**CPA**") compensated on an hourly basis, upon at least thirty (30) days prior notice to Landlord at any time during regular business hours to audit, review and photocopy Landlord's records pertaining to Operating Expenses for the immediately previous calendar year only; provided, however, to the extent that Tenant's audit identifies one or more material discrepancies, Tenant may audit the books and records for the previous two (2) years with respect to those discrepancies. Tenant shall complete the audit and present any disputed charges to Landlord, in writing, within six months of receipt of Landlord's statement pursuant to Paragraph (c) of this Paragraph 4. If, following Landlord's receipt of the audit and any disputed charges (the "**Report Date**"), Landlord disputes the findings contained therein, and Landlord and Tenant are not able to resolve their differences within thirty (30) days following the Report Date, the dispute shall be resolved by binding arbitration as follows: Landlord and Tenant shall each designate an independent certified public accountant, which shall in turn jointly select a third independent Certified Public Accountant (the "**Third CPA**"). The Third CPA, within thirty (30) days of selection, shall, at Tenant's sole expense (unless the Third CPA resolves the difference in Tenant's favor, in which event Landlord shall pay the cost of the Third CPA in an amount not to exceed $2,000.00), audit the relevant records and certify the proper amount within. That certification shall be final and conclusive. If the Third CPA determines that the amount of Operating Expenses billed to Tenant was incorrect, the appropriate party shall pay to the other party the deficiency or overpayment, as applicable, within thirty (30) days following delivery of the Third Party CPA's decision, without interest. Tenant agrees to keep all information thereby obtained by Tenant confidential and to obtain the agreement of its CPA and Third CPA to keep all such information confidential. Tenant shall provide a copy of such CPA agreements to Landlord promptly upon request.

5. UTILITIES AND SERVICES

(a) From 8:00 a.m. to 6:00 p.m. on weekdays, and 8:00 a.m. to 12:00 p.m. Saturdays (**"Normal Business Hours"** (excluding legal holidays)), Landlord shall furnish to the Premises electricity for lighting and operation of customary office machines, water, heat and air conditioning, and elevator service (at least one elevator shall be in service 24 hours a day, 7 days a week). During all other hours, Landlord shall furnish such service except for heat and air conditioning. Landlord shall provide janitorial services for the Premises on weekdays (excluding legal holidays) as determined reasonably necessary by Landlord. Tenant shall separately arrange with, and pay directly to, the applicable local public authorities or utilities, as the case may be, for the furnishing, installation and maintenance of all telephone services and equipment as may be required by Tenant in the use of the Premises. Landlord shall not be liable for any damages resulting from interruption of, or Tenant's inability to receive such service, and any such inability shall not relieve Tenant of any of its obligations under this Lease. If at any time during the Term Landlord shall determine that installation of a separate electrical meter for the Premises is necessary or desirable as a result of Tenant's electrical usage, Landlord shall pay the cost of installing and maintaining such meter and Tenant shall pay the cost of Tenant's electrical usage as measured by such meter.

(b) If requested by Tenant, Landlord shall furnish heat and air conditioning at times other than Normal Business Hours and the cost of such services as established by Landlord shall

be paid by Tenant as Additional Rent, payable concurrently with the next installment of Base Rent. As of the date of this Lease, the overtime HVAC charge is $50.00 per hour, per floor.

(c) Without limiting the terms of Paragraph 5(a) above, Tenant acknowledges that Landlord has contracted with Potomac Electric Power Company to provide electricity for the Building, and that Landlord reserves the right to change the provider of such service at any time and from time to time in Landlord's sole discretion (any such provider being referred to herein as the **"Electric Service Provider"**). Tenant shall obtain and accept electrical service for the Premises only from and through Landlord, in the manner and to the extent expressly provided in this Lease, at all times during the term of this Lease, and Tenant shall have no right (and hereby waives any right Tenant may otherwise have) (i) to contract with or otherwise obtain any electrical service for or with respect to the Premises or Tenant's operations therein from any provider of electrical service other than the Electric Service Provider, or (ii) to enter into any separate or direct contract or other similar arrangement with the Electric Service Provider for the provision of electrical service to Tenant at the Premises. Tenant shall cooperate with Landlord and the Electric Service Provider at all times to facilitate the delivery of electrical service to Tenant at the Premises and to the Building, including without limitation allowing Landlord and the Electric Service Provider, and their respective agents and contractors, (a) to install, repair, replace, improve and remove and any and all electric lines, feeders, risers, junction boxes, wiring, and other electrical equipment, machinery and facilities now or hereafter located within the Building or the Premises for the purpose of providing electrical service to or within the Premises or the Building, and (b) reasonable access for the purpose of maintaining, repairing, replacing or upgrading such electrical service from time to time. Tenant shall provide such information and specifications regarding Tenant's use or projected use of electricity at the Premises as shall be required from time to time by Landlord or the Electric Service Provider to efficiently provide electrical service to the Premises or the Building. In no event shall Landlord be liable or responsible for any loss, damage, expense or liability, including without limitation loss of business or any consequential damages, arising from any failure or inadequacy of the electrical service being provided to the Premises or the Building, whether resulting from any change, failure, interference, disruption, or defect in the supply or character of the electrical service furnished to the Premises or the Building, or arising from the partial or total unavailability of electrical service to the Premises or the Building, from any cause whatsoever, or otherwise, nor shall any such failure, inadequacy, change, interference, disruption, defect or unavailability constitute an actual or constructive eviction of Tenant, or entitle Tenant to any abatement or diminution of Rent or otherwise relieve Tenant from any of its obligations under this Lease.

(d) Tenant acknowledges that the Premises, the Building and/or the Project may become subject to the rationing of Utility services or restrictions on Utility use as required by a public utility company, governmental agency or other similar entity having jurisdiction thereof. Tenant acknowledges and agrees that its tenancy and occupancy hereunder shall be subject to such rationing or restrictions as may be imposed upon Landlord, Tenant, the Premises, the Building and/or the Project, and Tenant shall in no event be excused or relieved from any covenant or obligation to be kept or performed by Tenant by reason of any such rationing or restrictions. Tenant agrees to comply with energy conservation programs implemented by Landlord by reason of rationing, restrictions or Laws.

(e) Landlord shall not be liable for any loss, injury or damage to property caused by or resulting from any variation, interruption, or failure of Utilities. No temporary interruption or failure of such services incident to the making of repairs, alterations, improvements, or due to accident, strike, or conditions or other events shall be deemed an eviction of Tenant or relieve Tenant from any of its obligations hereunder. In no event shall Landlord be liable to Tenant for any damage to the Premises or for any loss, damage or injury to any property therein or thereon occasioned by bursting, rupture, leakage or overflow of any plumbing or other pipes (including, without limitation, water, steam, and/or refrigerant lines), sprinklers, tanks, drains, drinking fountains or washstands, or other similar cause in, above, upon or about the Premises, the Building, or the Project.

(f) Landlord makes no representation with respect to the adequacy or fitness of the air-conditioning or ventilation equipment in the Building to maintain temperatures which may be required for, or because of, any equipment of Tenant, other than normal fractional horsepower office equipment, or occupancy of the Premises by more than one person per 200 rentable square feet. Landlord warrants that all HVAC equipment serving the Premises will be in good working order as of the Commencement Date. Tenant shall not, without Landlord's prior written consent, use heat-generating machines, machines other than normal fractional horsepower office machines, equipment or lighting other than building standard lights in the Premises, which may affect the temperature otherwise maintained by the air conditioning system or increase the water normally furnished for the Premises by Landlord pursuant to the terms of this Paragraph 5. If such consent is given, Landlord shall have the right to install supplementary air conditioning units or other facilities in the Premises, including supplementary or additional metering devices, and the cost thereof, including the cost of installation, operation and maintenance, increased wear and tear on existing equipment and other similar charges, shall be paid by Tenant to Landlord upon billing by Landlord. Tenant shall not use water or heat or air conditioning in excess of that normally supplied by Landlord. Tenant's consumption of electricity shall not exceed five (5) watts per rentable square foot.

(g) Notwithstanding the foregoing, (i) to the extent any of the foregoing services for which Landlord is responsible are not furnished to the Premises for five (5) or more consecutive days after Landlord receives notice from Tenant, (ii) the Premises are rendered untenantable due to the Landlord's failure to deliver such services, and (iii) the Landlord is not diligently pursuing a cure of such interruption, then commencing with the sixth (6^{th}) day after Landlord receives such notice, the Base Rent shall be abated until the Premises are again tenantable. Such abatement shall be Tenant's sole and exclusive remedy due to any such interruption.

6. LATE CHARGE

Notwithstanding any other provision of this Lease to the contrary, Tenant hereby acknowledges that late payment to Landlord of Rent, or other amounts due hereunder will cause Landlord to incur costs not contemplated by this Lease, the exact amount of which will be extremely difficult to ascertain. If any Rent or other sums due from Tenant are not received by Landlord or by Landlord's designated agent within five (5) business days after their due date, then Tenant shall pay to Landlord a late charge equal to five percent (5%) of such overdue amount. Notwithstanding the foregoing, no late charge shall be assessed for the first time in any twelve-month period the Base Rent is not paid when due, if such Base Rent is received by Landlord within five (5) days after notice thereof is sent to Tenant. Landlord and Tenant hereby agree that such late

charges represent a fair and reasonable estimate of the cost that Landlord will incur by reason of Tenant's late payment and shall not be construed as a penalty. Landlord's acceptance of such late charges shall not constitute a waiver of Tenant's default with respect to such overdue amount or estop Landlord from exercising any of the other rights and remedies granted under this Lease.

7. SECURITY DEPOSIT

On or before the date hereof, Tenant shall deposit with Landlord a clean, irrevocable and unconditional letter of credit payable at sight in a form acceptable to Landlord in its sole discretion ("**Letter of Credit**") issued by a bank or financial institution and branch, all approved by Landlord in its sole discretion (hereinafter referred to as the "**Bank**") in favor of Landlord, in the amount of Two Hundred Twelve Thousand Six Hundred Thirty-six and 01/100 Dollars ($212,636.00) as security for the faithful performance and observance by Tenant of the terms, conditions and provisions of this Lease, including without limitation the surrender of possession of the Premises to Landlord as herein provided. The Letter of Credit shall have a term which expires no sooner than sixty (60) days after the Expiration Date, or Tenant may deliver a one (1) year unconditional and irrevocable Letter of Credit which by its terms automatically, for the remainder of the Term, renews for successive one (1) year periods unless the Bank provides no less than sixty (60) days written notice to Landlord that such Letter of Credit shall not be renewed, in which event Landlord shall have the right to draw down the entire amount of the Letter of Credit unless Tenant substitutes, prior to the expiration of such letter of Credit, a new Letter of Credit which meets the requirements of this Paragraph 7. The Letter of Credit shall permit multiple drawings and be fully transferable by Landlord without the payment of any fees or charges by Landlord. If Tenant defaults in respect of any of the terms, conditions or provisions of this Lease including, but not limited to, the payment of Rent, and Tenant fails to cure any such default after any required notice and within any applicable cure period hereunder or if Landlord receives a notice that the Letter of Credit shall not be renewed, (i) Landlord shall have the right to require the Bank to make payment to Landlord or its designee of the entire proceeds of the Letter of Credit, and (ii) Landlord may, at the option of Landlord (but Landlord shall not be required to) apply or retain the whole or any part of such sum so paid to it by Tenant or the Bank to the extent required for the payment of any Rent or any other sum as to which Tenant is in default, and any damages to which Landlord is entitled pursuant to the Lease, whether such damages accrue before or after summary proceedings or other reentry by Landlord, and (iii) Landlord or any Superior Mortgagee shall hold the remainder of such sum paid to it by the Bank or Tenant, if any, for Landlord's benefit, as security for the faithful performance and observance by Tenant of the terms, covenants, and conditions of this Lease on Tenant's part to be observed and performed, with the same rights as hereinabove set forth to apply or retain the same in the event of any further default by Tenant under this Lease. If Landlord applies or retains any part of the proceeds of the Letter of Credit, Tenant shall, within five (5) business days after demand from Landlord, restore the Letter of Credit to its original amount and deliver it to Landlord or its designee the so that Landlord or its designee shall have the full Letter of Credit on hand at all times during the Term of this Lease (and any extension). Tenant's failure to do so within ten (10) days of receipt of such demand shall constitute a breach of this Lease.

In the event of a transfer, sale or lease of Landlord's interest in the Building, Landlord shall transfer or cause to be transferred either the cash or Letter of Credit or any sums collected thereunder by Landlord, together with any other sums then held by Landlord or its designee as

such security, to the transferee, vendee or lessee; Tenant, at its sole cost, shall arrange for the transfer of the Letter of Credit, and Landlord thereupon shall be released by Tenant from all liability under this Paragraph. Tenant agrees to look solely to the new landlord for the return of the cash or Letter of Credit or any sums collected thereunder and any other security, and it is agreed that the provisions hereof shall apply to every transfer or assignment made of the Letter of Credit or any sums collected thereunder and any other security to a new landlord. Tenant further covenants that it shall not assign or encumber, or attempt to assign or encumber, any part of such security and that neither Landlord nor its successors or assigns shall be bound by any such assignment, encumbrance, attempted assignment, or attempted encumbrance. Landlord shall not be required to exhaust its remedies against Tenant before having recourse to the Letter of Credit or such cash security held by Landlord. Recourse by Landlord to the Letter of Credit or such security shall not affect any remedies of Landlord which are provided in this Lease or which are available to Landlord in law or equity.

In the event that Tenant shall fully and faithfully comply with all of the terms, provisions, covenants and conditions of this Lease, the Letter of Credit except as same may have been applied by Landlord in accordance with this Lease, shall be returned to Tenant promptly after the expiration of this Lease.

8. POSSESSION

(a) **Tenant's Right of Possession.** Subject to Paragraph 8(b), Tenant shall be entitled to possession of the Premises upon commencement of the Term.

(b) **Delay in Delivering Possession.** If for any reason whatsoever, Landlord cannot deliver possession of the Premises to Tenant on or before the Estimated Commencement Date, this Lease shall not be void or voidable, nor shall Landlord, or Landlord's agents, advisors, employees, partners, shareholders, directors, invitees, independent contractors or Landlord's Investment Advisors (as hereinafter defined) (collectively, **"Landlord's Agents"),** be liable to Tenant for any loss or damage resulting therefrom. Tenant shall not be liable for Rent until Landlord delivers possession of the Premises to Tenant.

9. USE OF PREMISES

(a) **Permitted Use**. The use of the Premises by Tenant and Tenant's agents, advisors, employees, partners, shareholders, directors, customers, invitees and independent contractors (collectively, **"Tenant's Agents"**) shall be solely for the Permitted Use specified in the Basic Lease Information and for no other use. Tenant shall not permit any objectionable or unpleasant odor, smoke, dust, gas, noise or vibration to emanate from or near the Premises. The Premises shall not be used to create any nuisance or trespass, for any illegal purpose, for any purpose not permitted by Laws (as hereinafter defined), for any purpose that would invalidate the insurance or increase the premiums for insurance on the Premises, the Building or the Project or for any purpose or in any manner that would interfere with other tenants' use or occupancy of the Project. If any of Tenant's office machines or equipment disturb any other tenant in the Building, then Tenant shall provide adequate insulation or take such other action as may be necessary to eliminate the noise or disturbance. Tenant agrees to pay to Landlord, as Additional Rent, any increases in premiums on policies to the extent resulting from Tenant's Permitted Use or any other use or action by Tenant or Tenant's Agents which increases Landlord's premiums or requires additional coverage by Landlord to insure the Premises. Tenant agrees not to overload the floor(s) of the Building.

(b) **Compliance with Governmental Regulations and Private Restrictions.** Tenant and Tenant's Agents shall, at Tenant's expense, faithfully observe and comply with (1) all municipal, state and federal laws, statutes, codes, rules, regulations, ordinances, requirements, and orders (collectively, **"Laws"),** now in force or which may hereafter be in force pertaining to the Premises or Tenant's use of the Premises, the Building or the Project; (2) all recorded covenants, conditions and restrictions affecting the Project (**"Private Restrictions"**) now in force or which may hereafter be in force; and (3) the Rules and Regulations (as defined in Paragraph 41 of this Lease). Without limiting the generality of the foregoing, to the extent Landlord is required by the city or county in which the Building is located to maintain carpooling and public transit programs, Tenant shall cooperate in the implementation and use of these programs by and among Tenant's employees.

(c) **Compliance with Americans with Disabilities Act.** The Premises, the Building and/or the Project may be subject to, among other Laws, the Americans with Disabilities Act, 42 U.S.C. 12101 *et seq.*, including, but not limited to Title III thereof, and all regulations and guidelines related thereto, together with any and all laws, rules, regulations, ordinances, codes and statutes now or hereafter enacted by local or state agencies having jurisdiction thereof, as the same may be in effect on the date of this Lease and may be hereafter modified, amended or supplemented (collectively, the "**ADA**"**).** Any Tenant Improvements to be constructed hereunder shall comply with the ADA, and all costs incurred to comply therewith shall be a part of and included in the cost of the Tenant Improvements. Tenant shall be solely responsible for conducting its own independent investigation of this matter and for ensuring that the design of all Tenant Improvements complies with all requirements of the ADA. Subject to reimbursement pursuant to Paragraph 4 above, if any barrier removal work or other work is required to the Building, the Common Areas or the Project under the ADA, then such work shall be the responsibility of Landlord; provided that, if such work is required under the ADA as a result of Tenant's particular use of the Premises or any work or Alteration (as hereinafter defined) made to the Premises by or on behalf of Tenant, then such work shall be performed by Landlord at the sole cost and expense of Tenant. Except as otherwise expressly provided in this provision, Tenant shall be responsible at its sole cost and expense for fully and faithfully complying with all applicable requirements of the ADA. Within fifteen (15) days after receipt, Tenant shall advise Landlord in writing, and provide Landlord with copies of (as applicable), any notices alleging violation of the ADA relating to any portion of the Premises, the Building or the Project; any claims made or threatened orally or in writing regarding noncompliance with the ADA and relating to any portion of the Premises, the Building, or the Project; or any governmental or regulatory actions or investigations instituted or threatened regarding noncompliance with the ADA and relating to any portion of the Premises, the Building or the Project. Tenant shall and hereby agrees to protect, defend (with counsel acceptable to Landlord) and hold Landlord and Landlord's Agents harmless and indemnify Landlord and Landlord's Agents from and against all liabilities, damages, claims, losses, penalties, judgments, charges and expenses (including reasonable attorneys' fees, costs of court and expenses necessary in the prosecution or defense of any litigation including the enforcement of this provision) to the extent arising from or in any way related to, directly or indirectly, Tenant's or Tenant's Agents violation or alleged violation of the ADA. Landlord shall and hereby agrees to protect, defend (with counsel acceptable to Tenant) and hold Tenant and Tenant's Agents harmless and indemnify

Tenant and Tenant's Agents from and against all liabilities, damages, claims, losses, penalties, judgments, charges and expenses (including reasonable attorneys' fees, costs of court and expenses necessary in the prosecution or defense of any litigation including the enforcement of this provision) to the extent arising from or in any way related to, directly or indirectly, Landlord or Landlord's Agents violation or alleged violation of the ADA as to the Common Areas. Landlord and Tenant agree that their respective obligations herein shall survive the expiration or earlier termination of this Lease.

(d) **No Roof Access**. Subject to Paragraph 60, at no time during the Term shall Tenant have access to the roof of the Building or have the right to install, operate or maintain a satellite-earth communications station (antenna and associated equipment), microwave equipment and/or an FM antenna on the Building or the Project.

10. ACCEPTANCE OF PREMISES

By its execution hereof, Tenant acknowledges that it had the opportunity to fully inspect the Premises, including, but not limited to, conducting any desired testing.

By accepting Landlord's delivery of the Premises, Tenant accepts the Premises as suitable for Tenant's intended use and as being in good and sanitary operating order, condition and repair, AS IS, and without representation or warranty by Landlord as to the condition, use or occupancy which may be made thereof. Any exceptions to the foregoing must be by written agreement executed by Landlord and Tenant.

11. SURRENDER

Tenant agrees that on the last day of the Term, or on the sooner termination of this Lease, Tenant shall surrender the Premises to Landlord (a) in good condition and repair (damage by casualty, acts of God, fire, and normal wear and tear excepted), and (b) otherwise in accordance with Paragraph 32(f). Normal wear and tear shall not include any damage or deterioration that would have been prevented by proper maintenance by Tenant or Tenant otherwise performing all of its obligations under this Lease. On or before the expiration or sooner termination of this Lease, (i) Tenant shall remove all of Tenant's Property (as hereinafter defined) which it is obligated to remove, remove Tenant's signage from the Premises, the Building and the Project and repair any damage caused by such removal, and (ii) Landlord may, by notice to Tenant given not later than ninety (90) days prior to the Expiration Date (except in the event of a termination of this Lease prior to the scheduled Expiration Date, in which event no advance notice shall be required), require Tenant at Tenant's expense to remove any or all Alterations and to repair any damage caused by such removal. Any of Tenant's Property not so removed by Tenant as required herein shall be deemed abandoned and may be stored, removed, and disposed of by Landlord at Tenant's expense, and Tenant waives all claims against Landlord for any damages resulting from Landlord's retention and disposition of such property; provided, however, that Tenant shall remain liable to Landlord for all costs incurred in storing and disposing of such abandoned property of Tenant. All Tenant Improvements and Alterations except those which Landlord requires Tenant to remove shall remain in the Premises as the property of Landlord.

12. ALTERATIONS AND ADDITIONS

(a) Tenant shall not make, or permit to be made, any alteration, addition or improvement (hereinafter referred to individually as an "Alteration" and collectively as the **"Alterations"**) to the Premises or any part thereof without the prior written consent of Landlord, which consent shall not be unreasonably withheld; provided, however, that Landlord shall have the right in its sole and absolute discretion to consent or to withhold its consent to any Alteration which affects the structural portions of the Premises, the Building or the Project or the Systems serving the Premises, the Building and/or the Project or any portion thereof.

(b) Any Alteration to the Premises shall be at Tenant's sole cost and expense, in compliance with all applicable Laws and all reasonable requirements requested by Landlord, including, without limitation, the requirements of any insurer providing coverage for the Premises or the Project or any part thereof, and in accordance with plans and specifications reasonably approved in writing by Landlord, and shall be constructed and installed by a contractor reasonably approved in writing by Landlord. In connection with any Alteration, Tenant shall deliver plans and specifications therefor to Landlord. Before Alterations may begin, valid building permits or other required permits or licenses must be furnished to Landlord, and, once the Alterations begin, Tenant will diligently and continuously pursue their completion. Landlord may monitor construction of the Alterations and Tenant shall reimburse Landlord for all actual third-party costs incurred, as well as one percent (1%) of Tenant's total costs of construction for monitoring Tenant's construction; provided, however, that Landlord shall not charge a construction management fee if no formal drawings or governmental permits are required for Tenant's work. Tenant shall maintain during the course of construction, at its sole cost and expense, builders' risk insurance for the amount of the completed value of the Alterations on an all-risk non-reporting form covering all improvements under construction, including building materials, and other insurance in amounts and against such risks as Landlord shall reasonably require in connection with the Alterations. In addition to and without limitation on the generality of the foregoing, Tenant shall ensure that its contractors procure and maintain in full force and effect during the course of construction a "broad form" commercial general liability and property damage policy of insurance naming Landlord, Tenant, Landlord's Investment Advisors, any property manager designated by Landlord and Landlord's lenders as additional insureds. The minimum limit of coverage of the aforesaid policy shall be in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of one person in any one accident or occurrence and in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of more than one person in any one accident or occurrence, and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least One Million Dollars ($1,000,000.00).

(c) All Alterations, including, but not limited to, heating, lighting, electrical, air conditioning, fixed partitioning, drapery, wall covering and paneling, built-in cabinet work and carpeting installations made by Tenant, together with all property that has become an integral part of the Premises or the Building, shall at once be and become the property of Landlord, and shall not be deemed trade fixtures or Tenant's Property.

(d) No private telephone systems and/or other related computer or telecommunications equipment or lines may be installed without Landlord's prior written consent. If Landlord gives such consent, all equipment must be installed within the Premises and, at the request of Landlord made at any time prior to the expiration of the Term, removed upon the expiration or sooner termination of this Lease and the Premises restored to the same condition as before such installation.

(e) Notwithstanding anything herein to the contrary, before installing any equipment or lights which generate an undue amount of heat in the Premises, or if Tenant plans to use any high-power usage equipment in the Premises, Tenant shall obtain the written permission of Landlord. Landlord may refuse to grant such permission unless Tenant agrees to pay the costs to Landlord for installation of supplementary air conditioning capacity or electrical systems necessitated by such equipment.

(f) Tenant agrees not to proceed to make any Alterations, notwithstanding consent from Landlord to do so, until Tenant notifies Landlord in writing of the date Tenant desires to commence construction or installation of such Alterations and Landlord has approved such date in writing, in order that Landlord may post appropriate notices to avoid any liability to contractors or material suppliers for payment for Tenant's improvements. Tenant will at all times permit such notices to be posted and to remain posted until the completion of work..

(g) Tenant shall not, at any time prior to or during the Term, directly or indirectly employ, or permit the employment of, any contractor, mechanic or laborer in the Premises, whether in connection with any Alteration or otherwise, if it is reasonably forseeable that such employment will materially interfere or cause any material conflict with other contractors, mechanics, or laborers engaged in the construction, maintenance or operation of the Project by Landlord, Tenant or others. In the event of any such interference or conflict, Tenant, upon demand of Landlord, shall cause all contractors, mechanics or laborers causing such interference or conflict to leave the Project immediately.

13. MAINTENANCE AND REPAIRS OF PREMISES

(a) **Maintenance by Tenant**. Throughout the Term, Tenant shall, at its sole expense, subject to Paragraphs 5(a) and 13(b) hereof, (1) keep and maintain in good order and condition the Premises and Tenant's Property, (2) keep and maintain in good order and condition, repair and replace all of Tenant's security systems in or about or serving the Premises, and (3) maintain and replace all specialty lamps, bulbs, starters and ballasts. Tenant shall not do nor shall Tenant allow Tenant's Agents to do anything to cause any damage, deterioration or unsightliness to the Premises, the Building or the Project.

(b) **Maintenance by Landlord**. Subject to the provisions of Paragraphs 13(a), 21 and 22, and further subject to Tenant's obligation under Paragraph 4 to reimburse Landlord, in the form of Additional Rent, for Tenant's Proportionate Share(s) of the cost and expense of the following items, Landlord agrees to maintain, repair and replace, as necessary in Landlord's sole discretion, the following items: the roof coverings; the Systems serving the Premises (excluding any specialty systems installed by or for Tenant) and the Building; and the Parking Areas, pavement, landscaping, sprinkler systems, sidewalks, driveways, curbs, and lighting systems in the Common Areas. Subject to the provisions of Paragraphs 13(a), 21 and 22, Landlord, at its own cost and expense, agrees to maintain, repair and replace, as necessary in Landlord's sole discretion, the following items: the structural portions of the roof (specifically excluding the roof coverings), the foundation, the footings, the floor slab, and the load bearing walls and exterior

walls of the Building (excluding any glass and any routine maintenance, including, without limitation, any painting, sealing, patching and waterproofing of such walls). Notwithstanding anything in this Paragraph 13 to the contrary, Landlord shall have the right to either repair or to require Tenant to repair any damage to any portion of the Premises, the Building and/or the Project caused by or created due to any act, omission, negligence or willful misconduct of Tenant or Tenant's Agents and to restore the Premises, the Building and/or the Project, as applicable, to the condition existing prior to the occurrence of such damage; provided, however, that in the event Landlord elects to perform such repair and restoration work, Tenant shall reimburse Landlord upon demand for all costs and expenses incurred by Landlord in connection therewith. Landlord's obligation hereunder to repair and maintain is subject to the condition precedent that Landlord shall have received written notice of the need for such repairs and maintenance (or Landlord would have actual notice of the need for such repairs and maintenance as a result of the normal operation of the Building) and a reasonable time to perform such repair and maintenance. Tenant shall promptly report in writing to Landlord any defective condition known to it which Landlord is required to repair.

14. LANDLORD'S INSURANCE

Landlord shall purchase and keep in force fire, extended coverage and "all risk" insurance covering the Building and the Project. Tenant shall, at its sole cost and expense, comply with any and all reasonable requirements pertaining to the Premises, the Building and the Project of any insurer necessary for the maintenance of reasonable fire and commercial general liability insurance, covering the Building and the Project. Landlord may maintain "Loss of Rents" insurance, insuring that the Rent will be paid in a timely manner to Landlord for a period of at least twelve (12) months if the Premises, the Building or the Project or any portion thereof are destroyed or rendered unusable or inaccessible by any cause insured against under this Lease.

15. TENANT'S INSURANCE

(a) **Commercial General Liability Insurance.** Tenant shall, at Tenant's expense, secure and keep in force a "broad form" commercial general liability insurance and property damage policy covering the Premises, insuring Tenant, and naming Landlord, Landlord's investment advisors and agents from time to time, including, without limitation, UBS Realty Investors LLC (collectively "**Landlord's Investment Advisors**"), and Landlord's lenders as additional insureds (collectively, **"Landlord's Insureds"**), against any liability arising out of the ownership, use, occupancy or maintenance of the Premises. The minimum limit of coverage of such policy shall be in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of one person in any one accident or occurrence and in the amount of not less than Three Million Dollars ($3,000,000.00) for injury or death of more than one person in any one accident or occurrence, shall include a standard extended liability endorsement providing contractual liability coverage, and shall contain a severability of interest clause or a cross liability endorsement. Such insurance shall further insure Landlord and Tenant against liability for property damage of at least Three Million Dollars ($3,000,000.00). Landlord may from time to time require reasonable increases in any such limits if Landlord believes that additional coverage is necessary or desirable. The limit of any insurance shall not limit the liability of Tenant hereunder. No policy maintained by Tenant under this Paragraph 15(a) shall contain a deductible greater than twenty-five thousand dollars ($25,000.00). No policy shall be cancelable or subject to reduction of coverage without thirty (30) days prior written notice to Landlord. Such policies of insurance shall be issued as primary policies and not contributing with or in excess of coverage that Landlord may carry, by an insurance company authorized to do business in the state/commonwealth in which the Premises are located for the issuance of such type of insurance coverage and rated B+:XIII or better in Best's Key Rating Guide.

(b) **Personal Property Insurance.** Tenant shall maintain in full force and effect on all of its personal property, furniture, furnishings, trade or business fixtures and equipment (collectively, **"Tenant's Property"**) on the Premises, a policy or policies of fire and extended coverage insurance with standard coverage endorsement to the extent of the full replacement cost thereof. No such policy shall contain a deductible greater than twenty-five thousand dollars ($25,000.00). Landlord shall have no interest in the insurance upon Tenant's equipment and fixtures and will sign all documents reasonably necessary in connection with the settlement of any claim or loss by Tenant. Landlord will not carry insurance on Tenant's possessions.

(c) **Worker's Compensation Insurance; Employer's Liability Insurance.** Tenant shall, at Tenant's expense, maintain in full force and effect worker's compensation insurance with not less than the minimum limits required by law, and employer's liability insurance with a minimum limit of coverage of One Million Dollars ($1,000,000).

(d) **Evidence of Coverage.** Tenant shall deliver to Landlord certificates of insurance and true and complete copies of any and all endorsements required herein for all insurance required to be maintained by Tenant hereunder at the time of execution of this Lease by Tenant. Tenant shall, at least thirty (30) days prior to expiration of each policy, furnish Landlord with certificates of renewal thereof. Each certificate shall expressly provide that such policies shall not be cancelable or otherwise subject to modification except after thirty (30) days prior written notice to Landlord and the other parties named as additional insureds as required in this Lease (except for cancellation for nonpayment of premium, in which event cancellation shall not take effect until at least ten (10) days notice has been given to Landlord).

16. INDEMNIFICATION

(a) **Of Landlord.** Subject to Paragraph 17, Tenant shall defend, protect, indemnify and hold harmless Landlord and Landlord's Agents against and from any and all claims, suits, liabilities, judgments, costs, demands, causes of action and expenses (including, without limitation, reasonable attorneys' fees, costs and disbursements) to the extent arising from (1) the use of the Premises, the Building or the Project by Tenant or Tenant's Agents, or from any activity done, permitted or suffered by Tenant or Tenant's Agents in or about the Premises, the Building or the Project, and (2) any act, neglect, fault, willful misconduct or omission of Tenant or Tenant's Agents, or from any breach or default in the terms of this Lease by Tenant or Tenant's Agents, and (3) any action or proceeding brought on account of any matter in items (1) or (2). If any action or proceeding is brought against Landlord by reason of any such claim, upon notice from Landlord, Tenant shall defend the same at Tenant's expense by counsel reasonably satisfactory to Landlord. The obligations of Tenant under this Paragraph 16 shall survive any termination of this Lease.

(b) **Of Tenant.** Subject to Paragraph 17, Landlord shall defend, protect, indemnify and hold harmless Tenant and Tenant's Agents against and from any and all claims, suits, liabilities, judgments, costs, demands, causes of action and expenses (including, without limitation, reasonable attorneys' fees, costs and disbursements) to the extent arising from (1)

Landlord's use of the Project, or from any activity done by Landlord or Landlord's Agents in or about the Project, and (2) any act, neglect, fault, willful misconduct or omission of Landlord or Landlord's Agents, or from any breach or default in the terms of this Lease by Landlord or Landlord's Agents, and (3) any action or proceeding brought on account of any matter in items (1) or (2). If any action or proceeding is brought against Tenant by reason of any such claim, upon notice from Tenant, Landlord shall defend the same at Landlord's expense by counsel reasonably satisfactory to Tenant. The obligations of Landlord under this Paragraph 16 shall survive any termination of this Lease.

(c) Notwithstanding anything in this Lease to the contrary, no indemnifying party under any indemnification obligation under this Lease is required to indemnify the other party for any claims, suits, liabilities, judgments, costs, demands, causes of action and expenses to the extent that the same arise from, or to the extent the same are related to, the negligence or the wanton acts of the indemnified party.

(d) **No Impairment of Insurance.** The foregoing indemnity shall not relieve any insurance carrier of its obligations under any policies required to be carried by either party pursuant to this Lease, to the extent that such policies cover the peril or occurrence that results in the claim that is subject to the foregoing indemnity.

17. SUBROGATION

Landlord and Tenant hereby mutually waive any claim against the other and its Agent(s) for any loss or damage to any of their property located on or about the Premises, the Building or the Project to the extent caused by or to the extent results from perils covered by property insurance carried by the respective parties, whether or not due to the negligence of the other party or its Agents. Because the foregoing waivers will preclude the assignment of any claim by way of subrogation to an insurance company or any other person, each party shall immediately notify its insurer, in writing, of the terms of these mutual waivers. Nothing in this Paragraph 17 shall relieve a party of liability to the other for failure to carry insurance required by this Lease. The risk to be borne by each party under this section shall also include the satisfaction of any deductible amounts required to be paid under the applicable "all risks" fire and casualty insurance carried by the party whose property is damaged, and each party agrees that the other party shall not be responsible for satisfaction of such deductible (provided that Landlord shall have the right to include its deductible in Operating Expenses). These waivers shall apply if the damage would have been covered by a customary "all risks" insurance policy, even if the party fails to obtain such coverage. The intent of this provision is that each party shall look solely to its insurance with respect to property damage or destruction which can be covered by "all risks" insurance of the type described in this Lease. Each such policy shall include a waiver of all rights of subrogation by the insurance carrier against the other party, its agents and employees with respect to property damage covered by the applicable "all risks" fire and casualty insurance policy.

18. SIGNS

Tenant shall not place or permit to be placed in, upon, or about the Premises, the Building or the Project any exterior lights, decorations, balloons, flags, pennants, banners, advertisements or notices, or erect or install any signs, windows or door lettering, placards, decorations, or advertising media of any type which can be viewed from the exterior the Premises without obtaining Landlord's prior written consent. Tenant shall remove any sign, advertisement or notice

placed on the Premises, the Building or the Project by Tenant upon the expiration of the Term or sooner termination of this Lease, and Tenant shall repair any damage or injury to the Premises, the Building or the Project caused thereby, all at Tenant's expense. If any signs are not removed, or necessary repairs not made, Landlord shall have the right to remove the signs and repair any damage or injury to the Premises, the Building or the Project at Tenant's sole cost and expense. In addition to any other rights or remedies available to Landlord, in the event that Tenant erects or installs any sign in violation of this Paragraph 18, and Tenant fails to remove same within three (3) business days after notice from Landlord or erects or installs a similar sign in the future, Landlord shall have the right to charge Tenant a signage fee equal to $500 per day for each day thereafter that such sign is not removed or a similar sign is installed or erected in the future. Landlord's election to charge such fee shall not be deemed to be a consent by Landlord to such sign and Tenant shall remain obligated to remove such sign in accordance with Landlord's notice.

19. FREE FROM LIENS

Tenant shall keep the Premises, the Building and the Project free from any liens arising out of any work performed, material furnished or obligations incurred by or for Tenant. In the event that Tenant shall not, within thirty (30) days following the imposition of any such lien, cause the lien to be released of record by payment or posting of a proper bond, Landlord shall have in addition to all other remedies provided herein and by law the right but not the obligation to cause same to be released by such means as it shall deem proper, including payment of the claim giving rise to such lien. All such sums paid by Landlord and all expenses incurred by it in connection therewith (including, without limitation, reasonable attorneys' fees) shall be payable to Landlord by Tenant upon demand. Landlord shall have the right at all times to post and keep posted on the Premises any notices permitted or required by law or that Landlord shall deem proper for the protection of Landlord, the Premises, the Building and the Project, from mechanics' and materialmen's liens.

20. ENTRY BY LANDLORD

Tenant shall permit Landlord and Landlord's Agents to enter into and upon the Premises at all reasonable times, upon reasonable notice (except in the case of an emergency, for which no notice shall be required), and subject to Tenant's reasonable security arrangements, for the purpose of inspecting the same or showing the Premises to prospective purchasers, lenders or tenants or to provide services, alter, improve, maintain and repair the Premises or the Building as required or permitted of Landlord under the terms hereof, or for any other business purpose, without any rebate of Rent and without any liability to Tenant for any loss of occupation or quiet enjoyment of the Premises thereby occasioned (except for actual damages resulting from the gross negligence or willful misconduct of Landlord); and Tenant shall permit Landlord to post notices of non-responsibility and ordinary "for sale" or "for lease" signs. No such entry shall be construed to be a forcible or unlawful entry into, or a detainer of, the Premises, or an eviction or constructive eviction of Tenant from the Premises. Landlord may temporarily close entrances, doors, corridors, elevators or other facilities without liability to Tenant by reason of such closure in the case of an emergency and when Landlord otherwise deems such closure necessary.

21. DESTRUCTION AND DAMAGE

(a) If the Premises are damaged by fire or other perils covered by extended coverage insurance, Tenant shall give Landlord immediate notice thereof and Landlord shall, at Landlord's option:

(1) In the event of total destruction (which shall mean destruction or damage in excess of twenty-five percent (25%) of the full insurable value thereof) of the Premises, elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the date Landlord obtains actual knowledge of such destruction (the **"Casualty Discovery Date"**). If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the Casualty Discovery Date.

(2) In the event of a partial destruction (which shall mean destruction or damage to an extent not exceeding twenty-five percent (25%) of the full insurable value thereof) of the Premises for which Landlord will receive insurance proceeds sufficient to cover the cost to repair and restore such partial destruction and, if the damage thereto is such that the Premises may be substantially repaired or restored to its condition existing immediately prior to such damage or destruction within two hundred forty (240) days from the Casualty Discovery Date, Landlord shall commence and proceed diligently with the work of repair and restoration, in which event the Lease shall continue in full force and effect. If such repair and restoration requires longer than two hundred forty (240) days or if the insurance proceeds therefor (plus any amounts Tenant may elect or is obligated to contribute) are not sufficient to cover the cost of such repair and restoration, either party may elect to terminate this Lease. Landlord shall give written notice to Tenant of its estimate of the repair time within sixty (60) days after the Casualty Discovery Date. If either party terminates, this Lease shall be deemed to have terminated as of the Casualty Discovery Date.

(3) Notwithstanding anything to the contrary contained in this Paragraph, in the event of material damage to the Premises occurring during the last twelve (12) months of the Term, either Landlord or Tenant may elect to terminate this Lease by written notice of such election given to the other within thirty (30) days after the Casualty Discovery Date.

(b) If the Premises are damaged by any peril not fully covered by insurance proceeds to be received by Landlord, and the cost to repair such damage exceeds any amount Tenant may agree to contribute, Landlord may elect either to commence promptly to repair and restore the Premises and prosecute the same diligently to completion, in which event this Lease shall remain in full force and effect; or not to repair or restore the Premises, in which event this Lease shall terminate. Landlord shall give Tenant written notice of its intention within sixty (60) days after the Casualty Discovery Date. If Landlord elects not to restore the Premises, this Lease shall be deemed to have terminated as of the date on which Tenant surrenders possession of the Premises to Landlord, except that if the damage to the Premises materially impairs Tenant's ability to continue its business operations in the Premises, then this Lease shall be deemed to have terminated as of the date such damage occurred.

(c) Notwithstanding anything to the contrary in this Paragraph 21, Landlord shall have the option to terminate this Lease, exercisable by notice to Tenant within sixty (60) days after the Casualty Discovery Date, in each of the following instances:

(1) If more than twenty-five percent (25%) of the full insurable value of the Building or the Project is damaged or destroyed, regardless of whether or not the Premises is destroyed.

(2) If the Building or the Project or any portion thereof is damaged or destroyed and the repair and restoration of such damage requires longer than one hundred eighty (180) days from the Casualty Discovery Date, regardless of whether or not the Premises is destroyed.

(3) If the Building or the Project or any portion thereof is damaged or destroyed and the insurance proceeds therefor are not sufficient to cover the costs of repair and restoration, regardless of whether or not the Premises is destroyed.

(4) If the Building or the Project or any portion thereof is damaged or destroyed during the last twelve (12) months of the Term, regardless of whether or not the Premises is destroyed.

(d) In the event of repair and restoration as herein provided, the monthly installments of Base Rent shall be abated proportionately in the ratio which Tenant's use of the Premises is impaired during the period of such repair or restoration, but only to the extent of rental abatement insurance proceeds received by Landlord; provided, however, that Tenant shall not be entitled to such abatement to the extent that such damage or destruction resulted from the acts or inaction of Tenant or Tenant's Agents. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any damage to or destruction of the Premises, the Building or the Project or the repair or restoration thereof, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building or the Project and/or any inconvenience or annoyance occasioned by such damage, repair or restoration.

(e) If Landlord is obligated to or elects to repair or restore as herein provided, Landlord shall repair or restore only the initial tenant improvements, if any, constructed by Landlord in the Premises pursuant to the terms of this Lease, substantially to their condition existing immediately prior to the occurrence of the damage or destruction; and Tenant shall promptly repair and restore, at Tenant's expense, Tenant's Alterations which were not constructed by Landlord.

22. CONDEMNATION

(a) If twenty-five percent (25%) or more of either the Premises, the Building or the Project or the parking areas for the Building or the Project is permanently taken for any public or quasi-public purpose by any lawful governmental power or authority, by exercise of the right of appropriation, inverse condemnation, condemnation or eminent domain, or sold to prevent such taking (each such event being referred to as a "**Condemnation**"), Landlord may, at its option,

terminate this Lease as of the date title vests in the condemning party. If twenty-five percent (25%) or more of the Premises is taken and if the Premises remaining after such Condemnation and any repairs by Landlord would be untenantable (in Landlord's reasonable opinion) for the conduct of Tenant's business operations, Tenant shall have the right to terminate this Lease as of the date title vests in the condemning party. If either party elects to terminate this Lease as provided herein, such election shall be made by written notice to the other party given within thirty (30) days after the nature and extent of such Condemnation have been finally determined. If neither Landlord nor Tenant elects to terminate this Lease to the extent permitted above, Landlord shall promptly proceed to restore the Premises, to the extent of any Condemnation award received by Landlord, to substantially the same condition as existed prior to such Condemnation, allowing for the reasonable effects of such Condemnation, and a proportionate abatement shall be made to the Base Rent corresponding to the time during which, and to the portion of the floor area of the Premises (adjusted for any increase thereto resulting from any reconstruction) of which, Tenant is deprived on account of such Condemnation and restoration, as reasonably determined by Landlord. Except as expressly provided in the immediately preceding sentence with respect to abatement of Base Rent, Tenant shall have no claim against Landlord for, and hereby releases Landlord and Landlord's Agents from responsibility for and waives its entire claim of recovery for any cost, loss or expense suffered or incurred by Tenant as a result of any Condemnation, whether permanent or temporary, or the repair or restoration of the Premises, the Building or the Project or the parking areas for the Building or the Project following such Condemnation, including, without limitation, any cost, loss or expense resulting from any loss of use of the whole or any part of the Premises, the Building, the Project or the parking areas and/or any inconvenience or annoyance occasioned by such Condemnation, repair or restoration.

(b) Landlord shall be entitled to any and all compensation, damages, income, rent, awards, or any interest therein whatsoever which may be paid or made in connection with any Condemnation, and Tenant shall have no claim against Landlord for the value of any unexplored term of this Lease or otherwise; provided, however, that Tenant shall be entitled to receive any award separately allocated by the condemning authority to Tenant for Tenant's relocation expenses or the value of Tenant's Property (specifically excluding fixtures, Alterations and other components of the Premises which under this Lease or by law are or at the expiration of the Term will become the property of Landlord), provided that such award does not reduce any award otherwise allocable or payable to Landlord.

23. ASSIGNMENT AND SUBLETTING

(a) Tenant shall not voluntarily or by operation of law, (1) mortgage, pledge, hypothecate or encumber this Lease or any interest herein, (2) assign or transfer this Lease or any interest herein, sublease the Premises or any part thereof, or any right or privilege appurtenant thereto, or allow any other person (the employees and invitees of Tenant excepted) to occupy or use the Premises, or any portion thereof, without first obtaining the written consent of Landlord, which consent shall not be withheld or delayed unreasonably as set forth below in this Section 23, provided that Tenant is not then in Default under this Lease nor is any event then occurring which with the giving of notice or the passage of time, or both, would constitute a Default hereunder. A transfer of greater than a fifty percent (50%) interest (whether stock, partnership interest, membership interest or otherwise) of Tenant, either in one (1) transaction or a series of transactions shall be deemed to be an assignment under this Lease.

(b) When Tenant requests Landlord's consent to such assignment or subletting, it shall notify Landlord in writing of the name and address of the proposed assignee or subtenant and the nature and character of the business of the proposed assignee or subtenant and shall provide current and 3 years prior financial statements for the proposed assignee or subtenant, which financial statements shall be audited to the extent available and shall in any event be prepared in accordance with generally accepted accounting principles. Tenant shall also provide Landlord with a copy of the proposed sublease or assignment agreement, including all material terms and conditions thereof. Landlord shall have the option, to be exercised within thirty (30) days of receipt of the foregoing, to (1) terminate this Lease as of the commencement date stated in the proposed sublease or assignment, (2) sublease or take an assignment, as the case may be, from Tenant of the interest, or any portion thereof, in this Lease and/or the Premises that Tenant proposes to assign or sublease, on the same terms and conditions as stated in the proposed sublet or assignment agreement, (3) consent to the proposed assignment or sublease, or (4) refuse its consent to the proposed assignment or sublease, provided that (A) such consent shall not be unreasonably withheld so long as Tenant is not then in Default under this Lease nor is any event then occurring which, with the giving of notice or the passage of time, or both, would constitute a Default hereunder, and (B) as a condition to providing such consent, Landlord may require attornment from the proposed subtenant on terms and conditions reasonably acceptable to Landlord. In the event Landlord elects to terminate this Lease or sublease or take an assignment from Tenant of the interest, or portion thereof, in the Lease and/or the Premises that Tenant proposes to assign or sublease as provided in the foregoing clauses (1) and (2), respectively, then Landlord shall have the additional right to negotiate directly with Tenant's proposed assignee or subtenant and to enter into a direct lease or occupancy agreement with such party on such terms as shall be acceptable to Landlord in its sole and absolute discretion.

(c) Without otherwise limiting the criteria upon which Landlord may withhold its consent, Landlord shall be entitled to consider all reasonable criteria including, but not limited to, the following: (1) whether or not the proposed subtenant or assignee is engaged in a business which, and the use of the Premises will be in an manner which, is in keeping with the then character and nature of all other tenancies in the Project, (2) whether the use to be made of the Premises by the proposed subtenant or assignee will conflict with any so-called "exclusive" use then in favor of any other tenant of the Building or the Project, and whether such use would be prohibited by any other portion of this Lease, including, but not limited to, any rules and regulations then in effect, or under applicable Laws, and whether such use imposes a greater load upon the Premises and the Building and Project services than imposed by Tenant, and (3) the creditworthiness and financial stability of the proposed assignee or subtenant in light of the responsibilities involved. In any event, Landlord may withhold its consent to any assignment or sublease, if (i) the actual use proposed to be conducted in the Premises or portion thereof conflicts with the provisions of Paragraph 9(a) or (b) above or with any other lease which restricts the use to which any space in the Building or the Project may be put, (ii) the portion of the Premises proposed to be sublet does not permit safe or otherwise appropriate means of ingress and egress, or does not comply with governmental safety and other codes, (iii) the proposed sublessee or assignee is either a governmental or quasi-governmental agency or instrumentality thereof; (iv) the proposed sublessee or assignee, or any person or entity which directly or indirectly, controls, is controlled by, or is under common control with, the proposed sublessee or assignee, either (x) occupies space in the Project at the time of the request for Landlord's consent, or (y) is negotiating with Landlord or has negotiated with Landlord to lease

comparable space (in size and term) in the Project during the six (6) month period immediately preceding the date Landlord receives Tenant's request for consent.

(d) As a further condition to any rights Tenant may have under this Lease to sublet all or any portion of the Premises, Tenant shall advertise space for sublease at a starting base rental rate no lower than Landlord's then current highest asking base rental rate for other space in the Project which is then on the market for direct lease. If there is no space in the Project then currently on the market for direct lease, Tenant shall not advertise the space for sublease at a starting base rental rate lower than a rate which is the average of the starting rate for Landlord's last two new leases and/or renewals in the Project, or if Landlord has not entered into two new leases and/or renewals within the immediately preceding six (6) month period, then Tenant shall offer the space for sublease at a starting base rental rate no lower than Landlord's advertised rental rate for comparable spaces within the Building.

(e) If Landlord approves an assignment or subletting as herein provided, Tenant shall pay to Landlord, as Additional Rent, fifty percent (50%) of the excess, if any, of (1) the rent and any additional rent payable by the assignee or sublessee to Tenant, less reasonable and customary market-based leasing commissions, if any, incurred by Tenant in connection with such assignment or sublease; minus (2) Base Rent plus Additional Rent allocable to that part of the Premises affected by such assignment or sublease pursuant to the provisions of this Lease, which commissions shall, for purposes of the aforesaid calculation, be amortized on a straight-line basis over the term of such assignment or sublease. The assignment or sublease agreement, as the case may be, after approval by Landlord, shall not be amended without Landlord's prior written consent, and shall contain a provision directing the assignee or subtenant to pay the rent and other sums due thereunder directly to Landlord upon receiving written notice from Landlord that Tenant is in default under this Lease with respect to the payment of Rent. In the event that, notwithstanding the giving of such notice, Tenant collects any rent or other sums from the assignee or subtenant, then Tenant shall hold such sums in trust for the benefit of Landlord and shall immediately forward the same to Landlord. Landlord's collection of such rent and other sums shall not constitute an acceptance by Landlord of attornment by such assignee or subtenant.

(f) Notwithstanding any assignment or subletting, Tenant and any guarantor or surety of Tenant's obligations under this Lease shall at all times remain fully and primarily responsible and liable for the payment of the Rent and for compliance with all of Tenant's other obligations under this Lease (regardless of whether Landlord's approval has been obtained for any such assignment or subletting).

(g) Tenant shall pay up to $1,500.00 for Landlord's reasonable fees (including, without limitation, the fees of Landlord's counsel), incurred in connection with Landlord's review and processing of documents regarding any proposed assignment or sublease.

(h) A consent to one assignment, subletting, occupation or use shall not be deemed to be a consent to any other or subsequent assignment, subletting, occupation or use, and consent to any assignment or subletting shall in no way relieve Tenant of any liability under this Lease. Any assignment or subletting without Landlord's consent shall be void, and shall, at the option of Landlord, constitute a Default under this Lease.

(i) If this Lease is assigned, whether or not in violation of the provisions of this Lease, Landlord may collect Rent from the assignee. If the Premises or any part thereof is sublet

or used or occupied by anyone other than Tenant, whether or not in violation of this Lease, Landlord may, after a Default by Tenant, collect Rent from the subtenant or occupant. In either event, Landlord may apply the net amount collected to Rent, but no such assignment, subletting, occupancy or collection shall be deemed a waiver of any of the provisions of this Paragraph 23, or the acceptance of the assignee, subtenant or occupant as tenant, or a release of Tenant from the further performance by Tenant of Tenant's obligations under this Lease. The consent by Landlord to an assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting pursuant to any provision of this Lease shall not, except as otherwise provided herein, in any way be considered to relieve Tenant from obtaining the express consent of Landlord to any other or further assignment, mortgaging, pledging, encumbering, transfer, use, occupancy or subletting. References in this Lease to use or occupancy by anyone other than Tenant shall not be construed as limited to subtenants and those claiming under or through subtenants but as including also licensees or others claiming under or through Tenant, immediately or remotely. The listing of any name other than that of Tenant on any door of the Premises or on any directory or in any elevator in the Building, or otherwise, shall not, except as otherwise provided herein, operate to vest in the person so named any right or interest in this Lease or in the Premises, or be deemed to constitute, or serve as a substitute for, or any waiver of, any prior consent of Landlord required under this Paragraph 23.

(j) Each subletting and/or assignment pursuant to this Paragraph shall be subject to all of the covenants, agreements, terms, provisions and conditions contained in this Lease and each of the covenants, agreements, terms, provisions and conditions of this Lease shall be automatically incorporated therein. If Landlord shall consent to, or reasonably withhold its consent to, any proposed assignment or sublease, Tenant shall indemnify, defend and hold harmless Landlord against and from any and all loss, liability, damages, costs and expenses (including reasonable counsel fees) resulting from any claims that may be made against Landlord by the proposed assignee or sublessee or by any brokers or other persons claiming a commission or similar fee in connection with the proposed assignment or sublease.

(l) Tenant may assign this Lease, or sublease all or part of the Premises, without the consent of Landlord and with no right to recapture the space, to:

(i) an entity which is controlled by Tenant;

(ii) an entity which controls Tenant;

(iii) an entity which is in common control with Tenant;

(iv) an entity succeeding to Tenant by operation of law by reason of a merger, provided that the liabilities of Tenant are also assumed by such entity;

(v) an entity succeeding to Tenant's business by virtue of its purchase of substantially all of Tenant's assets (but excluding a leveraged buyout of Tenant) provided that the liabilities of Tenant are also assumed by such entity; or

(vi) an entity which acquires the majority of the capital stock and voting shares in Tenant (each a "Permitted Transferee").

For the purposes of the foregoing “control” means the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of an entity, whether through the ownership of voting securities, by contract or otherwise.

24. TENANT’S DEFAULT

The occurrence of any one of the following events shall constitute an event of default on the part of Tenant (**“Default”**):

(a) The abandonment of the Premises by Tenant which would cause any insurance policy to be invalidated or otherwise lapse. Tenant agrees to notice and service of notice as provided for in this Lease and waives any right to any other or further notice or service of notice which Tenant may have under any statute or law now or hereafter in effect;

(b) Failure to pay any installment of Rent or any other monies due and payable hereunder, said failure continuing for a period of five (5) days after the same is due; provided that, on up to one (1) occasion in any twelve (12) month period, there shall exist no Default unless Landlord gives Tenant written notice of such failure and Tenant fails to make such payment within five (5) days following the giving of such notice;

(c) A general assignment by Tenant or any guarantor or surety of Tenant’s obligations hereunder, including, without limitation Lease Guarantor, if any, (collectively, **“Guarantor”**) for the benefit of creditors;

(d) The filing of a voluntary petition in bankruptcy by Tenant or any Guarantor, the filing by Tenant or any Guarantor of a voluntary petition for an arrangement, the filing by or against Tenant or any Guarantor of a petition, voluntary or involuntary, for reorganization, or the filing of an involuntary petition by the creditors of Tenant or any Guarantor, said involuntary petition remaining undischarged for a period of sixty (60) days;

(e) Receivership, attachment, or other judicial seizure of substantially all of Tenant’s assets on the Premises, such attachment or other seizure remaining undismissed or undischarged for a period of sixty (60) days after the levy thereof;

(f) Death or disability of Tenant or any Guarantor, if Tenant or such Guarantor is a natural person, or the failure by Tenant or any Guarantor to maintain its legal existence, if Tenant or such Guarantor is a corporation, partnership, limited liability company, trust or other legal entity;

(g) Failure of Tenant to execute and deliver to Landlord any estoppel certificate, subordination agreement, or lease amendment within the time periods and in the manner required by Paragraphs 30 or 31 or 42, and/or failure by Tenant to deliver to Landlord any financial statement within the time period and in the manner required by Paragraph 40;

(h) An assignment or sublease, or attempted assignment or sublease, of this Lease or the Premises by Tenant contrary to the provision of Paragraph 23, unless such assignment or sublease is expressly conditioned upon Tenant having received Landlord’s consent thereto;

(i) Failure of Tenant to restore the Security Deposit to the amount and within the time period provided in Paragraph 7 above;

(j) Failure in the performance of any of Tenant's covenants, agreements or obligations hereunder (except those failures specified as events of Default in subparagraphs (b)(i), (1) or (m) herein or any other subparagraphs of this Paragraph 24, which shall be governed by the notice and cure periods set forth in such other subparagraphs), which failure continues for thirty (30) days after written notice thereof from Landlord to Tenant, provided that, if Tenant has exercised reasonable diligence to cure such failure and such failure cannot be cured within such thirty (30) day period despite reasonable diligence, Tenant shall not be in default under this subparagraph so long as Tenant thereafter diligently and continuously prosecutes the cure to completion;

(k) Any insurance required to be maintained by Tenant pursuant to this Lease shall be canceled or terminated or shall expire or be reduced or materially changed, except as permitted in this Lease;

(l) Any failure by Tenant to discharge any lien or encumbrance placed on the Project or any part thereof in violation of this Lease within thirty (30) days after the date such lien or encumbrance is filed or recorded against the Project or any part thereof; and

(m) Any representation of Tenant herein or in any financial statement or other materials provided by Tenant or any guarantor of Tenant's obligations under this Lease shall prove to be untrue or inaccurate in any material respect, or any such financial statements or other materials shall have omitted any material fact.

25. LANDLORD'S REMEDIES

(a) **Termination.** In the event of any Default by Tenant, then in addition to any other remedies available to Landlord at law or in equity and under this Lease, Landlord may terminate this Lease immediately and all rights of Tenant hereunder by giving written notice to Tenant of such intention to terminate. If Landlord shall elect to so terminate this Lease then Landlord may recover from Tenant:

(1) the worth at the time of award of any unpaid Rent and any other sums due and payable which have been earned at the time of such termination; plus

(2) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable which would have been earned after termination until the time of award exceeds the amount of such rental loss Tenant proves could have been reasonably avoided; plus

(3) the worth at the time of award of the amount by which the unpaid Rent and any other sums due and payable for the balance of the term of this Lease after the time of award exceeds the amount of such rental loss that Tenant proves could be reasonably avoided; plus

(4) any other amount necessary to compensate Landlord for all the detriment proximately caused by Tenant's failure to perform its obligations under this Lease or which in

the ordinary course would be likely to result therefrom, including, without limitation, (A) any costs or expenses incurred by Landlord (1) in retaking possession of the Premises; (2) in maintaining, repairing, preserving, restoring, replacing, cleaning, altering, remodeling or rehabilitating the Premises or any affected portions of the Building or the Project, including such actions undertaken in connection with the reletting or attempted reletting of the Premises to a new tenant or tenants; (3) for leasing commissions, advertising costs and other expenses of reletting the Premises; or (4) in carrying the Premises, including taxes, insurance premiums, utilities and security precautions; (B) any unearned brokerage commissions paid in connection with this Lease; (C) reimbursement of any previously waived or abated Base Rent or Additional Rent or any free rent or reduced rental rate granted hereunder; and (D) any concession made or paid by Landlord for the benefit of Tenant including, but not limited to, any moving allowances, contributions, payments or loans by Landlord for tenant improvements or build-out allowances (including without limitation, any unamortized portion of the Tenant Improvement Allowance , such Tenant Improvement Allowance to be amortized over the Term in the manner reasonably determined by Landlord), if any, and any outstanding balance (principal and accrued interest) of the Tenant Improvement Loan, if any), or assumptions by Landlord of any of Tenant's previous lease obligations; plus

(5) such reasonable attorneys' fees incurred by Landlord as a result of a Default, and costs in the event suit is filed by Landlord to enforce such remedy; and plus

(6) at Landlord's election, such other amounts in addition to or in lieu of the foregoing as may be permitted from time to time by applicable law.

(7) As used in subparagraphs (1) and (2) above, the "worth at the time of award" is computed by allowing interest at an annual rate equal to twelve percent (12%) per annum or the maximum rate permitted by law, whichever is less. As used in subparagraph (3) above, the "worth at the time of award" is computed by discounting such amount at the discount rate of Federal Reserve Bank of San Francisco at the time of award, plus one percent (1%). Tenant hereby waives for Tenant and for all those claiming under Tenant all right now or hereafter existing to redeem by order or judgment of any court or by any legal process or writ, Tenant's right of occupancy of the Premises after any termination of this Lease**.**

(b) **Re-entry**. In the event of any Default by Tenant, Landlord shall also have the right, with or without terminating this Lease, in compliance with applicable law, to re-enter the Premises, by force if necessary, and remove all persons and property from the Premises; such property may be removed and stored in a public warehouse or elsewhere at the cost of and for the account of Tenant.

(c) **Reletting**. In the event of the abandonment of the Premises by Tenant or in the event that Landlord shall elect to re-enter as provided in Paragraph 25(b) or shall take possession of the Premises pursuant to legal proceeding or pursuant to any notice provided by law, then if Landlord does not elect to terminate this Lease as provided in Paragraph 25(a), Landlord may from time to time, without terminating this Lease, relet the Premises or any part thereof for such term or terms and at such rental or rentals and upon such other terms and conditions as Landlord in its sole discretion may deem advisable with the right to make alterations and repairs to the Premises in Landlord's sole discretion. In the event that Landlord shall elect to so relet, then rentals received by Landlord from such reletting shall be applied in the following order: (1) to reasonable attorneys' fees incurred by Landlord as a result of a Default and costs in the event suit

is filed by Landlord to enforce such remedies; (2) to the payment of any indebtedness other than Rent due hereunder from Tenant to Landlord; (3) to the payment of any costs of such reletting; (4) to the payment of the costs of any alterations and repairs to the Premises; (5) to the payment of Rent due and unpaid hereunder; and (6) the residue, if any, shall be held by Landlord and applied in payment of future Rent and other sums payable by Tenant hereunder as the same may become due and payable hereunder. Should that portion of such rentals received from such reletting during any month, which is applied to the payment of Rent hereunder, be less than the Rent payable during the month by Tenant hereunder, then Tenant shall pay such deficiency to Landlord. Such deficiency shall be calculated and paid monthly. Tenant shall also pay to Landlord, as soon as ascertained, any costs and expenses incurred by Landlord in such reletting or in making such alterations and repairs not covered by the rentals received from such reletting.

(d) **Termination.** No re-entry or taking of possession of the Premises by Landlord pursuant to this Paragraph 25 shall be construed as an election to terminate this Lease unless a written notice of such intention is given to Tenant or unless the termination thereof is decreed by a court of competent jurisdiction. Notwithstanding any reletting without termination by Landlord because of any Default by Tenant, Landlord may at any time after such reletting elect to terminate this Lease for any such Default.

(e) **Cumulative Remedies.** The remedies herein provided are not exclusive and Landlord shall have any and all other remedies provided herein or by law or in equity.

(f) **No Surrender.** No act or conduct of Landlord, whether consisting of the acceptance of the keys to the Premises, or otherwise, shall be deemed to be or constitute an acceptance of the surrender of the Premises by Tenant prior to the expiration of the Term, and such acceptance by Landlord of surrender by Tenant shall only flow from and must be evidenced by a written acknowledgment of acceptance of surrender signed by Landlord. The surrender of this Lease by Tenant, voluntarily or otherwise, shall not work a merger unless Landlord elects in writing that such merger take place, but shall operate as an assignment to Landlord of any and all existing subleases, or Landlord may, at its option, elect in writing to treat such surrender as a merger terminating Tenant's estate under this Lease, and thereupon Landlord may terminate any or all such subleases by notifying the sublessee of its election so to do within five (5) days after such surrender.

26. LANDLORD'S RIGHT TO PERFORM TENANT'S OBLIGATIONS

(a) Without limiting the rights and remedies of Landlord contained in Paragraph 25 above, if Tenant shall be in Default in the performance of any of the terms, provisions, covenants or conditions to be performed or complied with by Tenant pursuant to this Lease, then Landlord may at Landlord's option, without any obligation to do so, and without notice to Tenant perform any such term, provision, covenant, or condition, or make any such payment and Landlord by reason of so doing shall not be liable or responsible for any loss or damage thereby sustained by Tenant or anyone holding under or through Tenant or any of Tenant's Agents.

(b) Without limiting the rights of Landlord under Paragraph 26(a) above, Landlord shall have the right at Landlord's option, without any obligation to do so, to perform any of Tenant's covenants or obligations under this Lease without notice to Tenant in the case of an emergency, as determined by Landlord in its sole and absolute judgment, or if Landlord otherwise determines in its sole discretion that such performance is necessary or desirable for the

proper management and operation of the Building or the Project or for the preservation of the rights and interests or safety of other tenants of the Building or the Project.

(c) If Landlord performs any of Tenant's obligations hereunder in accordance with this Paragraph 26, the full amount of the cost and expense incurred or the payment so made or the amount of the loss so sustained shall immediately be owing by Tenant to Landlord, and Tenant shall promptly pay to Landlord upon demand, as Additional Rent, the full amount thereof with interest thereon from the date of payment by Landlord at the lower of (i) twelve percent (12%) per annum, or (ii) the highest rate permitted by applicable law.

27. ATTORNEYS' FEES

(a) If either party hereto fails to perform any of its obligations under this Lease or if any dispute arises between the parties hereto concerning the meaning or interpretation of any provision of this Lease, then the defaulting party or the party not prevailing in such dispute, as the case may be, shall pay any and all costs and expenses incurred by the other party on account of such default and/or in enforcing or establishing its rights hereunder, including, without limitation, court costs and reasonable attorneys' fees and disbursements. Any such attorneys' fees and other expenses incurred by either party in enforcing a judgment in its favor under this Lease shall be recoverable separately from and in addition to any other amount included in such judgment, and such attorneys' fees obligation is intended to be severable from the other provisions of this Lease and to survive and not be merged into any such judgment.

(b) Without limiting the generality of Paragraph 27(a) above, if Landlord or Tenant utilizes the services of an attorney for the purpose of collecting any sums due and unpaid by a party or in connection with any other breach of this Lease by a party, the non-prevailing party agrees to pay the prevailing party's actual attorneys' fees, regardless of the fact that no legal action may be commenced or filed.

28. TAXES

Tenant shall be liable for and shall pay directly to the taxing authority, prior to delinquency, all taxes levied against Tenant's Property. If any Alteration installed by Tenant pursuant to Paragraph 12 or any of Tenant's Property is assessed and taxed with the Project or Building, Tenant shall pay such taxes to Landlord within thirty (30) days after delivery to Tenant of a statement therefor.

29. EFFECT OF CONVEYANCE

The term "Landlord" as used in this Lease means, from time to time, the then current owner of the Building or the Project containing the Premises, so that, in the event of any sale of the Building or the Project, Landlord shall be and hereby is entirely freed and relieved of all covenants and obligations of Landlord hereunder, provided that the purchaser of the Building or the Project has assumed and agreed to carry out any and all covenants and obligations of Landlord hereunder.

30. TENANT'S ESTOPPEL CERTIFICATE

From time to time, upon written request of Landlord, Tenant shall execute, acknowledge and deliver to Landlord or its designee, an Estoppel Certificate in substantially the form attached

hereto as Exhibit E and with any other factual statements reasonably requested by Landlord or its designee. Any such Estoppel Certificate may be relied upon by a prospective purchaser of Landlord's interest or a mortgagee of (or holder of a deed trust encumbering) Landlord's interest or assignment of any mortgage or deed of trust upon Landlord's interest in the Premises. If Tenant fails to provide such certificate within ten (10) business days of receipt by Tenant of a written request by Landlord as herein provided, such failure shall, at Landlord's election, constitute a Default under this Lease, and Tenant shall be deemed to have given such certificate as above provided without modification and shall be deemed to have admitted the accuracy of any information supplied by Landlord to a prospective purchaser or mortgagee. Landlord agrees that before any Tenant failure to respond shall be deemed to admit the accuracy of such information, Landlord shall deliver notice to Tenant (which may be in the initial notice to Tenant), which shall be captioned in **BOLD, ALL CAPITAL LETTERS**, stating that any failure to respond shall be deemed to have admitted the accuracy of the information contained in such notice.

31. SUBORDINATION

At the option of Landlord, this Lease, and all rights of Tenant hereunder, are and shall be subject and subordinate to all ground leases, overriding leases and underlying leases affecting the Building or the Project now or hereafter existing and each of the terms, covenants and conditions thereto (the "**Superior Lease(s)**"), and to all mortgages or deeds of trust which may now or hereafter affect the Building, the Property or any of such leases and each of the terms, covenants and conditions thereto (the "**Superior Mortgage(s)**"), whether or not such mortgages or deeds of trust shall also cover other land, buildings or leases, to each and every advance made or hereafter to be made under such mortgages or deeds of trust, and to all renewals, modifications, replacements and extensions of such leases and such mortgages or deeds of trust and spreaders and consolidations of such mortgages or deeds of trust; provided, however, that in no event will Tenant's possession of the Premises be disturbed, or rights and privileges under this Lease be reduced, as long as no Tenant Default exists. This Paragraph shall be self-operative and no further instrument of subordination shall be required. Tenant shall promptly execute, acknowledge and deliver any reasonable instrument that Landlord, the lessor under any such lease or the holder of any such mortgage or deed of trust or any of their respective successors in interest may reasonably request to evidence such subordination. As used herein the lessor of a Superior Lease or its successor in interest is herein called "**Superior Lessor**"; and the holder of a Superior Mortgage is herein called "**Superior Mortgagee**".

Notwithstanding the foregoing terms of this Paragraph 31, if a Superior Lease or Superior Mortgage is hereafter placed against or affecting any or all of the Building or the Premises or any or all of the Building and improvements now or at any time hereafter constituting a part of or adjoining the Building, Landlord shall obtain an agreement from the holder thereof in recordable form and substantially in the form attached hereto as ***Exhibit F*** or otherwise in form and substance reasonably acceptable to Tenant, whereby the holder of such Superior Lease or Superior Mortgage agrees that the Tenant, upon paying the Base Rent and all of the Additional Rent and other charges herein provided for, and observing and complying with the covenants, agreements and conditions of this Lease on its part to be observed and complied with, shall lawfully and quietly hold, occupy and enjoy the Premises during the Term of this Lease (including any exercised renewal term), without hindrance or interference from anyone claiming by or through said Superior Mortgagee or Superior Lessor and that said Superior Mortgagee or Superior Lessor shall respect Tenant's rights

under the Lease and, upon succeeding to Landlord's interest in the Building and Lease, shall observe and comply with all of Landlord's duties under the Lease.

If any Superior Lessor or Superior Mortgagee shall succeed to the rights of Landlord under this Lease, whether through possession or foreclosure action or delivery of a new lease or deed (such party so succeeding to Landlord's rights herein called "**Successor Landlord**"), then Tenant shall attorn to and recognize such Successor Landlord as Tenant's landlord under this Lease (without the need for further agreement) and shall promptly execute and deliver any reasonable instrument that such Successor Landlord may reasonably request to evidence such attornment. This Lease shall continue in full force and effect as a direct lease between the Successor Landlord and Tenant upon all of the terms, conditions and covenants as are set forth in this Lease, except that the Successor Landlord shall not (a) be liable for any previous act or omission of Landlord under this Lease, except to the extent such act or omission shall constitute a continuing Landlord default hereunder; (b) be subject to any offset, not expressly provided for in this Lease; or (c) be bound by any previous modification of this Lease or by any previous prepayment of more than one month's Base Rent, unless such modification or prepayment shall have been expressly approved in writing by the Successor Landlord (or predecessor in interest).

32. ENVIRONMENTAL COVENANTS

(a) As used in this Lease, the term "**Hazardous Materials**" means (i) any substance or material that is included within the definitions of "hazardous substances," "hazardous materials," "toxic substances," "pollutant," "contaminant," "hazardous waste," or "solid waste" in any Environmental Law; (ii) petroleum or petroleum derivatives, including crude oil or any fraction thereof, all forms of natural gas, and petroleum products or by-products or waste; (iii) polychlorinated biphenyls (PCB's); (iv) asbestos and asbestos containing materials (whether friable or non-friable); (v) lead and lead based paint or other lead containing materials (whether friable or non-friable); (vi) urea formaldehyde; (vii) microbiological pollutants; (viii) batteries or liquid solvents or similar chemicals; (ix) radon gas; and (x) mildew, fungus, mold, bacteria and/or other organic spore material, whether or not airborne, colonizing, amplifying or otherwise.

(b) As used in this Lease, the term "**Environmental Laws**" means all statutes, terms, conditions, limitations, restrictions, standards, prohibitions, obligations, schedules, plans and timetables that are contained in or promulgated pursuant to any federal, state or local laws (including rules, regulations, ordinances, codes, judgments, orders, decrees, contracts, permits, stipulations, injunctions, the common law, court opinions, and demand or notice letters issued, entered, promulgated or approved thereunder), relating to pollution or the protection of the environment, including laws relating to emissions, discharges, releases or threatened releases of Hazardous Materials into ambient air, surface water, ground water or lands or otherwise relating to the manufacture, processing, distribution, use, treatment, storage, disposal, transport or handling of Hazardous Materials including but not limited to the: Comprehensive Environmental Response Compensation and Liability Act of 1980 (CERCLA), as amended by the Superfund Amendments and Reauthorization Act of 1986 (SARA), 42 U.S.C. 9601 et seq.; Solid Waste Disposal Act, as amended by the Resource Conservation and Recovery Act of 1976 (RCRA), 42 U.S.C. 6901 et seq.; Federal Water Pollution Control Act, 33 U.S.C. 1251 et seq.; Toxic Substances Control Act, 15 U.S.C. 2601 et seq.; Clean Air Act, 42 U.S.C. 7401 et seq.; the Safe Drinking Water Act, 42 U.S.C. § 300f et seq.; and the Maryland Environment Code Ann.

“Environmental Laws” shall include any statutory or common law that has developed or develops in the future regarding mold, fungus, microbiological pollutants, mildew, bacteria and/or other organic spore material. “Environmental Law” shall not include laws relating to industrial hygiene or worker safety, except to the extent that such laws address asbestos and asbestos containing materials (whether friable or non-friable) or lead and lead based paint or other lead containing materials.

(c) Landlord covenants that Landlord will comply with all Environmental Laws relating to the use, storage or disposal of any Hazardous Materials. Landlord shall indemnify and hold harmless Tenant from and against any and all claims, damages, fines, judgments, penalties, costs, losses, liabilities and expenses (including, without limitation, reasonable attorneys’, consultants’, and experts’ fees) incurred by Tenant and to the extent attributable to (i) any Hazardous Materials placed on or about the Project by Landlord or Landlord’s Agents, or (ii) Landlord’s breach of any provision of this Paragraph 32.

(d) During its use and occupancy of the Premises Tenant will not permit Hazardous Materials to be present on or about the Premises except for normal quantities of cleaning and other business supplies customarily used and stored in an office and that it will comply with all Environmental Laws relating to the use, storage or disposal of any such Hazardous Materials.

(e) If Tenant’s use of Hazardous Materials on or about the Premises results in a release, discharge or disposal of Hazardous Materials on, in, at, under, or emanating from, the Premises or the property in which the Premises are located, Tenant agrees to investigate, clean up, remove or remediate such Hazardous Materials in full compliance with (a) the requirements of (i) all Environmental Laws and (ii) any governmental agency or authority responsible for the enforcement of any Environmental Laws; and (b) any additional requirements of Landlord that are necessary, in Landlord’s reasonable discretion, to protect the value of the Premises or the property in which the Premises are located. Landlord shall also have the right, but not the obligation, to take whatever action with respect to any such Hazardous Materials that it deems necessary, in Landlord’s sole discretion, to protect the value of the Premises or the property in which the Premises are located. All reasonable costs and expenses paid or incurred by Landlord in the exercise of such right shall be payable by Tenant promptly upon demand.

(f) Upon reasonable notice to Tenant, Landlord may inspect the Premises for the purpose of determining whether there exists on the Premises any Hazardous Materials or other condition or activity that is in violation of the requirements of this Lease or of any Environmental Laws. The right granted to Landlord herein to perform inspections shall not create a duty on Landlord’s part to inspect the Premises, or liability on the part of Landlord for Tenant’s use, storage or disposal of Hazardous Materials.

(g) Tenant shall surrender the Premises to Landlord upon the expiration or earlier termination of this Lease free of those Hazardous Materials that Tenant or Tenant Parties introduced or for which Tenant is legally responsible. Notwithstanding anything to the contrary provided herein, Tenant shall not be required to remove any Hazardous Material, debris or waste to the extent such existed prior to the Tenant’s occupancy of the Premises or was caused by Landlord, Landlord’s Agents or other tenants in the Building. Tenant’s obligations and liabilities pursuant to this Paragraph 32 shall be in addition to any other surrender requirements in this Lease and shall survive the expiration or earlier termination of this Lease. To the extent

reasonably determined by Landlord that the condition of all or any portion of the Premises, the Building, and/or the Project is not in compliance with the provisions of this Lease with respect to Hazardous Materials, debris or waste, including, without limitation, all Environmental Laws, at the expiration or earlier termination of this Lease due to a default by Tenant of its obligations under this Lease, then at Landlord's sole option, and following reasonable notice to Tenant, Landlord may perform such work as is necessary to cure such default by Tenant, and Tenant shall be responsible for payment of all costs reasonably expended by Landlord in such cure. For purposes hereof, the term "normal wear and tear" shall not include any deterioration in the condition or diminution of the value of any portion of the Premises, the Building, and/or the Project in any manner whatsoever related directly or indirectly to Hazardous Materials brought (or generated) on the Premises by Tenant or Tenant's invitees.

(h) Tenant shall indemnify and hold harmless Landlord from and against any and all claims, damages, fines, judgments, penalties, costs, losses (including, without limitation, loss in value of the Premises or the property in which the Premises is located, and any and all sums paid for settlement of claims), liabilities and expenses (including, without limitation, attorneys', consultants', and experts' fees) incurred by Landlord during or after the term of this Lease and to the extent attributable to (i) any Hazardous Materials placed on or about the Premises, the Building or the Project by Tenant or Tenant's Agents, or resulting from the action or inaction (to the extent Tenant had an obligation under this Lease to act) of Tenant or Tenant's Agents, or (ii) Tenant's breach of any provision of this Paragraph 32. This indemnification includes, without limitation, any and all costs incurred by Landlord due to any investigation of the site or any cleanup, removal or restoration mandated by a federal, state or local agency or political subdivision.

(i) Because mold spores are present essentially everywhere and mold can grow in almost any moist location, Tenant acknowledges the necessity of adopting and enforcing good housekeeping practices, ventilation and vigilant moisture control within the Premises (particularly in kitchen areas, janitorial closets, bathrooms, in and around water fountains and other plumbing facilities and fixtures, break rooms, in and around outside walls, and in and around HVAC systems and associated drains) for the prevention of mold (such measures, "Mold Prevention Practices"). Tenant will, at its sole cost and expense, keep and maintain the Premises in good order and condition in accordance with the Mold Prevention Practices.

(j) Tenant, at its sole cost and expense, shall:

(i) Regularly monitor the Premises for the presence of mold and any conditions that reasonably can be expected to give rise to or be attributed to mold or fungus including, but not limited to, observed or suspected instances of water damage, condensation, seepage, leaks or any other water collection or penetration (from any source, internal or external), mold growth, mildew, repeated complaints of respiratory ailments or eye irritation by Tenant's employees or any other occupants of the Premises, or any notice from a governmental agency of complaints regarding the indoor air quality at the Premises (the "**Mold Conditions**"); and

(ii) Immediately notify Landlord in writing if it observes or suspects mold or Mold Conditions in, at, or about the Premises or a surrounding area.

(k) In the event of suspected mold or Mold Conditions in, at, or about the Premises and surrounding areas, Landlord may cause an inspection of the Premises to be conducted, during such time as Landlord may designate, to determine if mold or Mold Conditions are present in, at, or about the Premises.

(l) Tenant hereby releases and relieves Landlord from any and all liability for bodily injury and damage to property, waives any and all claims against Landlord and assumes all risk of personal injury and property damage related to or allegedly caused by or associated with any mold or Mold Conditions in or on the Premises caused by Tenant arising after the Commencement Date.

(m) The provisions of this Paragraph 32 shall survive the expiration or earlier termination of this Lease.

33. NOTICES

All notices and demands which are required or may be permitted to be given to either party by the other hereunder shall be in writing and shall be sent by United States mail, postage prepaid, certified, or by personal delivery or nationally recognized overnight courier, addressed to the addressee at Tenant's Address or Landlord's Address as specified in the Basic Lease Information, or to such other place as either party may from time to time designate in a notice to the other party given as provided herein. Copies of all notices and demands given to Landlord shall additionally be sent to Landlord's property manager at the address specified in the Basic Lease Information or at such other address as Landlord may specify in writing from time to time. Notice shall be deemed given upon actual receipt (or attempted delivery if delivery is refused), if personally delivered, or one (1) business day following deposit with a reputable overnight courier that provides a receipt, or on the third (3rd) day following deposit in the United States mail in the manner described above.

34. WAIVER

The waiver of any breach of any term, covenant or condition of this Lease shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. The subsequent acceptance of payment shall not be deemed to be a waiver of any preceding breach, other than the failure to pay the particular amount so accepted, regardless of a party's knowledge of such preceding breach at the time of acceptance. No delay or omission in the exercise of any right or remedy in regard to any Default shall impair such a right or remedy or be construed as a waiver. Any waiver of any Default must be in writing and shall not be a waiver of any other Default concerning the same or any other provisions of this Lease.

35. HOLDING OVER

Any holding over after the expiration of the Term, without the express written consent of Landlord, shall constitute a Default and, without limiting Landlord's remedies provided in this Lease, such holding over shall be construed to be a tenancy at sufferance, at a rental rate equal to the greater of one hundred fifty percent (150%) of the fair market rental value for the Premises as determined by Landlord or two hundred percent (200%) of the Base Rent last due in this Lease, plus Additional Rent, and shall otherwise be on the terms and conditions herein specified, so far as applicable; provided, however, in no event shall any renewal or expansion option, option to purchase, or other similar right or option contained in this Lease be deemed applicable to any such

tenancy at sufferance. If the Premises are not surrendered at the end of the Term or sooner termination of this Lease, and in accordance with the provisions of Paragraphs 11 and 32(e), Tenant shall indemnify, defend and hold Landlord harmless from and against any and all loss or liability resulting from delay by Tenant in so surrendering the Premises including, without limitation, any loss or liability resulting from any claim against Landlord made by any succeeding tenant or prospective tenant founded on or resulting from such delay and losses to Landlord due to lost opportunities to lease any portion of the Premises to any such succeeding tenant or prospective tenant, together with, in each case, actual attorneys' fees and costs.

36. SUCCESSORS AND ASSIGNS

The terms, covenants and conditions of this Lease shall, subject to the provisions as to assignment, apply to and bind the heirs, successors, executors, administrators and assigns of all of the parties hereto. If Tenant shall consist of more than one entity or person, the obligations of Tenant under this Lease shall be joint and several.

37. TIME

Time is of the essence of this Lease and each and every term, condition and provision herein.

38. BROKERS

Landlord and Tenant each represents and warrants to the other that neither it nor its officers or agents nor anyone acting on its behalf has dealt with any real estate broker except the Broker(s) specified in the Basic Lease Information in the negotiating or making of this Lease, and each party agrees to indemnify and hold harmless the other from any claim or claims, and costs and expenses, including attorneys' fees, incurred by the indemnified party in conjunction with any such claim or claims of any other broker or brokers to a commission in connection with this Lease as a result of the actions of the indemnifying party.

39. LIMITATION OF LIABILITY

In the event of any default or breach by Landlord under this Lease or arising in connection herewith or with Landlord's operation, management, leasing, repair, renovation, alteration or any other matter relating to the Project or the Premises Tenant's remedies shall be limited solely and exclusively to an amount which is equal to the interest in the Building of the then current Landlord (including rentals and insurance payable to or received by Landlord and condemnation awards, but excluding any amounts needed to repair or restore the Building). Except as provided in the following sentence, Tenant's remedy shall not extend to any sales proceeds received by Landlord or the Landlord Parties (as hereinafter defined) in connection with the sale of the Building and/or the Land. If Landlord (i) requests and Tenant provides an estoppel certificate to Landlord in connection with such sale, the estoppel certificate asserts a default by Landlord under the Lease, such default is not cured by the closing of the sale, and Tenant makes a claim against Landlord no later than sixty (60) days after Tenant receives written notice of the closing of the sale, then Tenant may make a claim against the sale proceeds for the default specified in the estoppel certificate to the extent of its damages, or (ii) fails to request an estoppel certificate from Tenant in connection with such sale, and Tenant, no later than sixty (60) days after Tenant receives written notice of the closing of the sale, asserts a default by Landlord under this Lease for a Landlord default arising

prior to the closing of the sale, then Tenant may make a claim against Landlord for the proceeds of the sale to the extent of its damages. For purposes of this Lease, "**Landlord Parties**" shall mean, collectively Landlord, its partners, shareholders, officers, directors, employees, investment advisors, or any successor in interest of any of them. Neither Landlord, nor any of the Landlord Parties shall have any personal liability therefor, and Tenant hereby expressly waives and releases such personal liability on behalf of itself and all persons claiming by, through or under Tenant. The limitations of liability contained in this Paragraph 39 shall inure to the benefit of Landlord's and the Landlord Parties' present and future partners, beneficiaries, officers, directors, trustees, shareholders, agents and employees, and their respective partners, heirs, successors and assigns. Under no circumstances shall any present or future partner of Landlord (if Landlord is a partnership), future member in Landlord (if Landlord is a limited liability company) or trustee or beneficiary (if Landlord or any partner or member of Landlord is a trust), have any liability for the performance of Landlord's obligations under this Lease. Notwithstanding any contrary provision herein, neither Landlord nor the Landlord Parties shall be liable under any circumstances for injury or damage to, or interference with Tenant's business, including but not limited to, loss of profits, loss of rents or other revenues, loss of business opportunity, loss of goodwill or loss of use, in each case, however occurring. The provisions of this section shall apply only to the Landlord and the parties herein described, and shall not be for the benefit of any insurer nor any other third party. Under no circumstances shall any present or future partner of Tenant (if Tenant is a partnership), future member in Tenant (if Tenant is a limited liability company) or trustee or beneficiary (if Tenant or any partner or member of Tenant is a trust), or any officer, director, shareholder or employee of Tenant have any liability for the performance of Tenant's obligations under this Lease.

40. FINANCIAL STATEMENTS

Within ten (10) days after Landlord's request, Tenant shall deliver to Landlord the then current audited financial statements of Tenant (including interim periods following the end of the last fiscal year for which annual statements are available), prepared or compiled by a certified public accountant, including a balance sheet and profit and loss statement for the most recent prior year, all prepared in accordance with generally accepted accounting principles consistently applied.

41. RULES AND REGULATIONS

Tenant shall comply with the rules and regulations attached hereto as Exhibit D, along with any modifications, amendments and supplements thereto, and such reasonable rules and regulations as Landlord may adopt in the future, from time to time, for the orderly and proper operation of the Building and the Project (collectively, the "**Rules and Regulations**"). The Rules and Regulations may include, but shall not be limited to, the following: (a) restriction of employee parking to a limited, designated area or areas; and (b) regulation of the removal, storage and disposal of Tenant's refuse and other rubbish. The then current Rules and Regulations shall be binding upon Tenant upon delivery of a copy of them to Tenant. Landlord shall not be responsible to Tenant for the failure of any other person to observe and abide by any of said Rules and Regulations. Landlord shall use reasonable efforts to enforce all such Rules and Regulations, including any exceptions thereto, uniformly and in a manner which does not discriminate against Tenant, although it is understood that Landlord may grant exceptions to such Rules and Regulations in circumstances in which it reasonably determines such exceptions are warranted.

42. MORTGAGEE PROTECTION

(a) **Modifications for Lender.** If, in connection with obtaining financing for the Project or any portion thereof, Landlord's lender shall request reasonable modifications to this Lease as a condition to such financing, Tenant shall not unreasonably withhold, delay or defer its consent to such modifications, provided such modifications do not materially adversely affect Tenant's rights or increase Tenant's obligations under this Lease.

(b) **Rights to Cure.** Tenant shall give to any trust deed or mortgage holder (**"Holder"**), by a method provided for in Paragraph 33 above, at the same time as it is given to Landlord, a copy of any notice of default given to Landlord, provided that prior to such notice Tenant has been notified, in writing, (by way of notice of assignment of rents and leases, or otherwise) of the address of such Holder. Tenant further agrees that if Landlord shall have failed to cure such default within the time provided for in this Lease, then the Holder shall have an additional reasonable period within which to cure such default, or if such default cannot be cured without Holder pursuing its remedies against Landlord, then such additional time as may be necessary to commence and complete a foreclosure proceeding, provided Holder commences and thereafter diligently pursues the remedies necessary to cure such default (including but not limited to commencement of foreclosure proceedings, if necessary to effect such cure), in which event this Lease shall not be terminated.

43. INTENTIONALLY OMITTED.

44. PARKING

(a) Provided that Tenant shall not then be in Default under the terms and conditions of the Lease, and provided further, that Tenant shall comply with and abide by Landlord's parking rules and regulations from time to time in effect, Tenant shall have the right to use for the parking of standard size passenger automobiles, pick up trucks, vans and SUVs, the number of exclusive and designated and non-exclusive and undesignated parking spaces, if any, set forth in the Basic Lease Information in the Parking Areas, provided, however, that Landlord shall not be required to enforce Tenant's right to use such parking spaces. All unreserved spaces will be on a first-come, first-served basis in common with other tenants of and visitors to the Project in parking spaces provided by Landlord from time to time in the Project's Parking Areas. In the event Tenant is granted the use of exclusive and designated parking spaces, as indicated in the Basic Lease Information, then such spaces shall be located in the area(s) designated by Landlord from time to time. Tenant's license to use the parking spaces provided for herein shall be subject to such terms, conditions, rules and regulations as Landlord or the operator of the Parking Area may reasonably impose from time to time, including, without limitation, the imposition of a parking charge.

(b) Each vehicle shall, at Landlord's option to be exercised from time to time, bear a permanently affixed and visible identification sticker to be provided by Landlord. Tenant shall not and shall not permit its Agents to park any vehicles in locations other than those specifically designated by Landlord as being for Tenant's use. The license granted hereunder is for self-service parking only and does not include additional rights or services. Neither Landlord nor its Agents shall be liable for: (i) loss or damage to any vehicle or other personal property parked or located upon or within such parking spaces or any Parking Areas whether pursuant to this license or otherwise and whether caused by fire, theft, explosion, strikes, riots or any other cause

whatsoever; or (ii) injury to or death of any person in, about or around such parking spaces or any Parking Areas or any vehicles parking therein or in proximity thereto whether caused by fire, theft, assault, explosion, riot or any other cause whatsoever and Tenant hereby waives any claim for or in respect to the above and against all claims or liabilities arising out of loss or damage to property or injury to or death of persons, or both, relating to any of the foregoing. Tenant shall not assign any of its rights hereunder, other than in connection with an assignment of this Lease or subletting of the Premises, and in the event an attempted assignment is made, it shall be void.

(c) Tenant recognizes and agrees that visitors, clients and/or customers (collectively the "**Visitors**") to the Project and the Premises must park automobiles or other vehicles only in areas designated by Landlord from time to time as being for the use of such Visitors and Tenant hereby agrees to ask its Visitors to park only in the areas designated by Landlord from time to time for the use of Tenant's Visitors. Further, parking for Visitors is subject to the payment of fees ("**Visitor Parking Fees**") at rates set and to be set by Landlord from time to time in its sole discretion. Tenant hereby covenants and agrees to pay or ask its Visitors to pay the Visitor Parking Fees, plus tax thereon, as shall be set by Landlord from time to time and to comply with and abide by Landlord's or Landlord's parking operator's rules and regulations governing the use of such Visitor's parking as may be in existence from time to time.

(d) In the event any tax, surcharge or regulatory fee is at any time imposed by any governmental authority upon or with respect to parking or vehicles parking in the parking spaces referred to herein, Tenant shall pay such tax, surcharge or regulatory fee as Additional Rent under this Lease, such payments to be made in advance and from time to time as required by Landlord (except that they shall be paid monthly with Base Rent payments if permitted by the governmental authority).

45. ENTIRE AGREEMENT

This Lease, including the Exhibits and any Addenda attached hereto, which are hereby incorporated herein by this reference, contains the entire agreement of the parties hereto, and no representations, inducements, promises or agreements, oral or otherwise, between the parties, not embodied herein or therein, shall be of any force and effect. If there is more than one Tenant, the obligations hereunder imposed shall be joint and several.

46. INTEREST

Any installment of Rent and any other sum due from Tenant under this Lease which is not received by Landlord within five (5) business days from when the same is due shall bear interest from the date such payment was originally due under this Lease until paid at the greater of (a) an annual rate equal to the maximum rate of interest permitted by law, or (b) twelve percent (12%) per annum. Payment of such interest shall not excuse or cure any default.

47. GOVERNING LAW; CONSTRUCTION

This Lease shall be construed and interpreted in accordance with the laws of state in which the Premises is located. The parties acknowledge and agree that no rule of construction to the effect that any ambiguities are to be resolved against the drafting party shall be employed in the interpretation of this Lease, including the Exhibits and any Addenda attached hereto. All captions in this Lease are for reference only and shall not be used in the interpretation of this Lease.

Whenever required by the context of this Lease, the singular shall include the plural, the masculine shall include the feminine, and vice versa. If any provision of this Lease shall be determined to be illegal or unenforceable, such determination shall not affect any other provision of this Lease and all such other provisions shall remain in full force and effect.

48. REPRESENTATIONS AND WARRANTIES OF TENANT

Tenant (and, if Tenant is a corporation, partnership, limited liability company or other legal entity) hereby makes the following representations and warranties, each of which is material and being relied upon by Landlord, is true in all respects as of the date of this Lease, and shall survive the expiration or termination of the Lease.

(a) If Tenant is an entity, Tenant is duly organized, validly existing and in good standing under the laws of the state of its organization, and is qualified to do business in the state in which the Premises is located, and the persons executing this Lease on behalf of Tenant have the full right and authority to execute this Lease on behalf of Tenant and to bind Tenant without the consent or approval of any other person or entity. Tenant has full power, capacity, authority and legal right to execute and deliver this Lease and to perform all of its obligations hereunder. This Lease is a legal, valid and binding obligation of Tenant, enforceable in accordance with its terms.

(b) Tenant has not (1) made a general assignment for the benefit of creditors, (2) filed any voluntary petition in bankruptcy or suffered the filing of an involuntary petition by any creditors, (3) suffered the appointment of a receiver to take possession of all or substantially all of its assets, (4) suffered the attachment or other judicial seizure of all or substantially all of its assets, (5) admitted in writing its inability to pay its debts as they come due, or (6) made an offer of settlement, extension or composition to its creditors generally.

(c)

(A) to the best of its knowledge, Tenant is not in violation of any Anti-Terrorism Law;

(B) to the best of its knowledge, Tenant is not, as of the date hereof:

(i) conducting any business or engaging in any transaction or dealing with any Prohibited Person, including the making or receiving of any contribution of funds, goods or services to or for the benefit of any Prohibited Person;

(ii) dealing in, or otherwise engaging in any transaction relating to, any property or interests in property blocked pursuant to Executive Order No. 13224; or

(iii) engaging in or conspiring to engage in any transaction that evades or avoids, or has the purpose of evading or avoiding, or attempts to violate any of the prohibitions set forth in, any Anti-Terrorism Law; and

(C) to the best of its knowledge, neither Tenant nor any of its officers, directors, shareholders or members, as applicable, is a Prohibited Person.

If at any time any of these representations becomes false, then it shall be considered a material default under this Lease.

As used herein, **"Anti-Terrorism Law"** is defined as any law relating to terrorism, anti-terrorism, money-laundering or anti-money laundering activities, including without limitation the United States Bank Secrecy Act, the United States Money Laundering Control Act of 1986, Executive Order No. 13224, and Title 3 of the USA Patriot Act, and any regulations promulgated under any of them. As used herein **"Executive Order No. 13224"** is defined as Executive Order No. 13224 on Terrorist Financing effective September 24, 2001, and relating to "Blocking Property and Prohibiting Transactions With Persons Who Commit, Threaten to Commit, or Support Terrorism", as may be amended from time to time. **"Prohibited Person"** is defined as (i) a person or entity that is listed in the Annex to Executive Order No. 13224, or a person or entity owned or controlled by an entity that is listed in the Annex to Executive Order No. 13224; (ii) a person or entity with whom Landlord is prohibited from dealing or otherwise engaging in any transaction by any Anti-Terrorism Law; or (iii) a person or entity that is named as a "specially designated national and blocked person" on the most current list published by the U.S. Treasury Department Office of Foreign Assets Control at its official website, http://www.treas.gov/ofac/t11sdn.pdf or at any replacement website or other official publication of such list. **"USA Patriot Act"** is defined as the "Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001" (Public Law 107-56), as may be amended from time to time.

49. NAME OF BUILDING

In the event Landlord chooses to change the name or address of the Building and/or the Project, Tenant agrees that such change shall not affect in any way its obligations under this Lease, and that, except for the name or address change, all terms and conditions of this Lease shall remain in full force and effect. Tenant agrees further that such name or address change shall not require a formal amendment to this Lease, but shall be effective upon Tenant's receipt of written notification from Landlord of said change. Landlord shall reimburse Tenant for Tenant's reasonable replacement stationery expenses which Tenant has on hand as of the date Landlord notifies Tenant that Landlord intends to change the name of the Building.

50. SECURITY

(a) Tenant acknowledges and agrees that, while Landlord may in its sole and absolute discretion engage security personnel to patrol the Building or the Project, Landlord is not providing any security services with respect to the Premises and that Landlord shall not be liable to Tenant for, and Tenant waives any claim against Landlord with respect to, any loss by theft or any other damage suffered or incurred by Tenant in connection with any unauthorized entry into the Premises or any other breach of security with respect to the Premises, the Building or the Project.

(b) Tenant hereby agrees to the exercise by Landlord and Landlord's Agents, within their sole discretion, of such security measures as, but not limited to, the evacuation of the Premises, the Building or the Project for cause, suspected cause or for drill purposes, the denial

of any access to the Premises, the Building or the Project and other similarly related actions that it deems necessary to prevent any threat of property damage or bodily injury. The exercise of such security measures by Landlord and Landlord's Agents, and the resulting interruption of service and cessation of Tenant's business, if any, shall not be deemed an eviction or disturbance of Tenant's use and possession of the Premises, or any part thereof, or render Landlord or Landlord's Agents liable to Tenant for any resulting damages or relieve Tenant from Tenant's obligations under this Lease.

51. JURY TRIAL WAIVER

The parties hereto hereby waive any right to trial by jury with respect to any action or proceeding (i) brought by Landlord, Tenant or any other party, relating to (A) this Lease and/or any understandings or prior dealings between the parties hereto, or (B) the Premises, the Building or the Project or any part thereof, or (ii) to which either is a party.

52. RECORDATION

Neither this Lease, nor any memorandum, affidavit or other writing with respect thereto, shall be recorded by Tenant or by any one acting through, under or on behalf of Tenant, and the recording thereof in violation of this provision shall make this Lease null and void at Landlord's election.

53. RIGHT TO LEASE

Landlord reserves the absolute right to effect such other tenancies in the Project as Landlord in the exercise of its sole business judgment shall determine to best promote the interest of the Project. Tenant does not rely on the fact, nor does Landlord represent, that any specific tenant or type or number of tenants shall, during the Lease Term, occupy any space in the Project.

54. FORCE MAJEURE

Any prevention, delay or stoppage due to strikes, lockouts, labor disputes, acts of God, inability to obtain services, labor, or materials or reasonable substitutes therefor, governmental actions, civil commotions, fire or other casualty, and other causes beyond the reasonable control of the party obligated to perform, except with respect to the obligations imposed with regard to payment of money pursuant to this Lease (collectively, the "**Force Majeure**"), notwithstanding anything to the contrary contained in this Lease, shall excuse the performance of such party for a period equal to any such prevention, delay or stoppage and therefore, if this Lease specifies a time period for performance of an obligation of either party, that time period shall be extended by the period of any delay in such party's performance cause by a Force Majeure.

55. ACCEPTANCE

This Lease shall only become effective and binding upon full execution hereof by Landlord and delivery of a signed copy to Tenant and Landlord's receipt of the Security Deposit.

56. RENEWAL OPTION

(a) Exercise of Options. Provided Tenant is not in Default, Tenant shall have the option (each an "**Option**") to renew this Lease for two (2) additional five (5) year periods (each an "**Option Period**") for the period commencing on the date following the Expiration Date (as same may be extended) upon the terms and conditions contained in this Lease, except, as provided in this Paragraph 56. To exercise the Option, Tenant shall give Landlord notice (the "**Extension Notice**") of the intent to exercise said Option not less than twelve (12) months or more than fifteen (15) months prior to the date on which the Option Period which is the subject of the notice will commence. The notice shall be given as provided in Paragraph 33 hereof. In the event Tenant shall exercise the Option, this Lease will terminate in its entirety at the end of the Option Period and Tenant will have no further Options to renew or extend the Term of this Lease.

(b) Determination of Base Rent. The Base Rent for the Option shall be determined as follows:

(i) Landlord and Tenant will have thirty (30) days after Landlord receives the Extension Notice within which to agree on the fair market rental value of the Premises in the Bethesda, Maryland submarket as of the commencement date of the Option Period, as defined in subsection (ii) below. If they agree on the Base Rent within thirty (30) days, they will amend this Lease by stating the Base Rent.

(ii) If Landlord and Tenant are unable to agree on the Base Rent for the Option Period within thirty (30) days, the Base Rent for the Option Period will be the-fair market rental value of the Premises as of the commencement date of the Option Period as determined in accordance with subsection (iii) hereof. As used in this Lease, the "fair market rental value of the Premises" means what a landlord under no compulsion to lease the Premises, and a tenant under no compulsion to lease the Premises, would determine as Base Rent (including initial monthly rent and rental increases), which shall include concessions, for the Option Period, as of the commencement of the Option Period, taking into consideration the uses permitted under this Lease, the quality, size, design and location of the Premises, and the rent for comparable buildings located in the vicinity of the Project.

(iii) Within thirty (30) days after the expiration of the thirty (30) day period set forth in subparagraph (ii) above, Landlord and Tenant shall each appoint one licensed real estate appraiser, and the two appraisers so appointed shall jointly attempt to determine and agree upon the then fair market rental value of the Premises. If they are unable to agree, then each appraiser so appointed shall set one value, and notify the other appraiser, of the value set by him or her, concurrently with such appraiser's receipt of the value set by the other appraiser. The two appraisers then shall, together, select a third licensed appraiser, who shall make a determination of the then fair market rental value, after reviewing the reports of the first two appraisers appointed by the parties, and after doing such independent research as he/she deems appropriate. The value determined by the third appraiser shall be the then fair market rental value of the Premises. Landlord and Tenant shall each pay for their own respective appraiser, and they shall divide equally the cost of the third appraiser.

57. RIGHT OF FIRST OFFER.

Provided Tenant is not then in Default under the terms of this Lease and there are a minimum of five (5) years remaining in the Lease Term, Landlord shall notify Tenant that additional office space on the second (2nd) floor of the Building (the "**Additional Space**") is to become available. The Term of the Lease for the Additional Space shall be coterminous with this Lease and the Base Rent shall be the then fair market rent, as determined in accordance with Section 56(b) above (the "**Offer Terms**"). Tenant shall have an option exercisable by written notice to Landlord within five (5) business days after receipt of Landlord's notice, to lease the Additional Space upon the Offer Terms. Rent in respect of the Additional Space shall commence to be due and payable on the date Landlord delivers the Additional Space to Tenant free of other tenants and occupants and otherwise in accordance with the Offer Terms. Promptly after Tenant exercises this option but no later than five (5) business days after the Base Rent is determined, the parties shall enter into a supplemental agreement to this Lease setting forth the terms and conditions upon which Tenant shall lease the Additional Space and incorporating the Additional Space as part of the Premises.

58. TENANT ACCESS

Subject to Landlord's reasonable regulations, Tenant shall have access to the Building, underground parking garage and Premises 24 hours per day, 365 days per year, except in the case of an emergency or when the Building may be closed by governmental authorities. Landlord shall provide Tenant with a restricted entry access system for after-hours access to the Building.

59. STORAGE SPACE

In addition to the Premises, Landlord leases to Tenant 1,000 rentable square feet of storage space on the lower level of the Building (the "Storage Premises"). Such space shall be used solely by Tenant for storage and is not to be occupied by any of Tenant's personnel. Tenant promises and agrees to pay Landlord as Additional Rent the annual sum of Fifteen Thousand and 00/100 Dollars ($15,000.00), payable in equal monthly installments of One Thousand Two Hundred Fifty and 00/100 Dollars ($1,250.00), triple net, without demand, notice, deduction, counterclaim or set-off, for each month of the entire Lease Term. Such additional rent shall be increased by three percent (3%) each year on the anniversary of the Commencement Date. The first monthly installment shall be due and payable upon execution of this Lease. The rental for each subsequent month shall be paid in advance beginning on the first day of the calendar month following the expiration of the first calendar month of the Lease Term and continuing thereafter on or before the first day of each succeeding calendar month during the term hereof. Landlord will not be required to provide heat, air conditioning, water, char service or any other utility or service to the Storage Premises, all of which shall be at Tenant's sole cost and expense. All rights and remedies of Landlord herein enumerated shall be cumulative, and none shall exclude any other right or remedy allowed by law.

60. ROOF RIGHTS

If, during the term of the Lease, Tenant wishes to install a satellite dish or other antenna on the roof of the Building, Landlord and Tenant agree to negotiate in good faith a separate License Agreement which will more particularly detail the obligations of each party with respect to such satellite dish or antenna.

61. LANDLORD DEFAULT

If Landlord fails to perform its obligations under this Lease, Landlord shall not be in default unless Landlord fails to perform such obligations within thirty (30) days after notice by Tenant to Landlord specifying the nature of the obligations Landlord has failed to perform; provided, however, that if the nature of Landlord's obligations is such that more than thirty (30) days are required for performance, then Landlord shall not be in default if Landlord commences performance within such thirty (30) day period and thereafter diligently prosecutes the same to completion. If Landlord is unable to fulfill or is delayed in fulfilling any of Landlord's obligations under this Lease by reason of floods, earthquakes, lightning, or any other acts of God, accidents, breakage, repairs, strikes, lockouts, other labor disputes, inability to obtain utilities or materials, or by any other reason beyond Landlord's reasonable control, or if Landlord enters the Premises or makes any Alterations to the Premises, the Building or any portion thereof pursuant to this Lease, then no such inability or delay by Landlord and no such entry or work by Landlord shall constitute an actual or constructive eviction, in whole or in part, or entitle Tenant to any abatement or diminution of Rent, or relieve Tenant from any of its obligations under this Lease, or impose any liability upon Landlord or its agents. This Lease shall be construed as though the covenants herein between Landlord and Tenant are independent, and Tenant shall not be entitled to any setoff, offset, abatement or deduction of Rent or other amounts due Landlord hereunder if Landlord fails to perform its obligations hereunder. Notwithstanding any provision of this Lease to the contrary, Tenant's sole remedy for a default of this Lease by Landlord shall be an action for damages, injunction or specific performance; Tenant shall have no right to terminate this Lease on account of any breach or default by Landlord.

LANDLORD: EW BETHESDA OFFICE INVESTORS, LLC, a Delaware limited liability company

By: UBS Realty Investors LLC, a Massachusetts limited liability company, its Manager

By: /s/ STUART FEINBERG

TENANT: SUCAMPO PHARMACEUTICAL, INC., a Delaware corporation

By: /s/ SACHIKO KUNO
Print Name: Sachiko Kuno, Ph.D.
Its: President and Chair of the Board

EXHIBIT A
DIAGRAM OF THE PREMISES

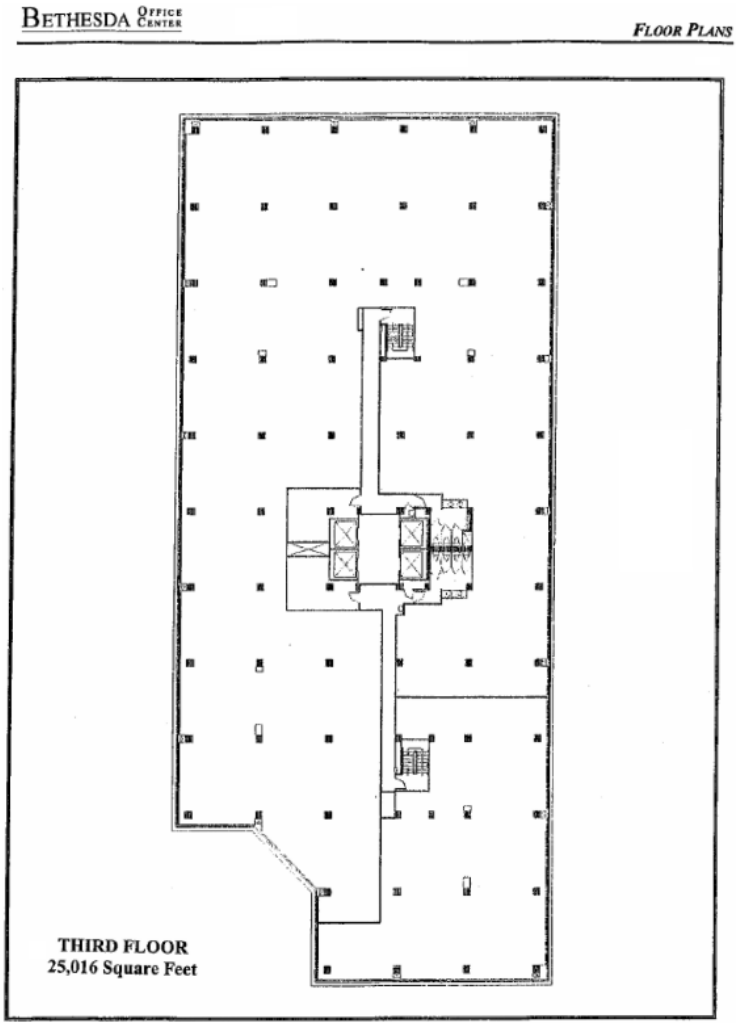


EXHIBIT B

TENANT IMPROVEMENTS

Lease between

EW BETHESDA OFFICE INVESTORS, LLC, as Landlord

and

SUCAMPO PHARMACEUTICALS, INC., as Tenant

WORK LETTER

Tenant agrees to accept the Premises in its "as is" condition, as of the Commencement Date subject to the following:

1. Tenant acknowledges it has inspected and is fully familiar with the Premises and is taking possession of such in its "as is" condition as of date of the full the Commencement Date.

2. Any renovation of the Premises after their initial build-out shall constitute an Alteration and shall be subject to the terms and conditions of Section 12 of this Lease.

3. Tenant shall make all improvements to the Premises using Building Standard materials in accordance with its obligations set forth under this Lease, and in accordance with the requirements of the Standard Rules and Regulations for Contractors attached to this Lease as ***Exhibit B-1*** and incorporated herein by reference. Tenant may select a general contractor from a list that previously has been approved by Landlord or shall obtain Landlord's consent to its proposed general contractor.

4. Once approved by Landlord, no material deviation from the Tenant Plans (defined below) which shall affect the base Building or any mechanical, electrical or plumbing systems or equipment or which would alter the appearance of the Building from the exterior as determined by Landlord in Landlord's reasonable judgment, shall be made by Tenant without Landlord's prior written consent. Landlord agrees to consent or withhold its consent to all Tenant Plans within five(5) business days after delivery of such documents to Landlord. Upon completion of all improvements, Tenant shall, at no cost or expense to Landlord, furnish to Landlord a complete set of final, as-built drawings related to such work showing all changes and deviations from the Tenant Plans, as well as certificates and lien waivers from all contractors and sub-contractors providing materials to, or performing work within, the Premises. Approval of the Tenant Plans by Landlord shall not constitute the assumption of any responsibility by Landlord for their accuracy or sufficiency, or that they comply in any way with applicable federal, state or local law, and Tenant shall be solely responsible for such accuracy, sufficiency or compliance. All work performed by Tenant shall be in accordance with: good construction practices; all applicable laws, orders, regulations and requirements of federal, state and local authorities having jurisdiction ("Jurisdictional Authorities"); and all insurance requirements. It is further

understood and agreed that Landlord shall have no responsibility or liability whatsoever for any loss of, or damage to, any fixtures, installed or left in the Premises. Tenant shall obtain at its sole cost and immediately thereafter furnish to Landlord all certificates and approvals with respect to work done and installations made pursuant to this Section that may be required from any of the Jurisdictional Authorities for the issuance of a certificate of occupancy for the Premises. Upon the issuance of the certificate of occupancy, a copy thereof shall be immediately delivered to Landlord.

5. All improvements constructed in the Premises by Tenant shall become and remain the property of Landlord. In addition to the foregoing, in the event Tenant decides to demolish any of the existing improvements in the Premises, Landlord shall have the right to recover and remove any items which Tenant intends to demolish or remove. Notwithstanding the foregoing, however, Tenant's trade fixtures, equipment and moveable wall systems, furniture and furnishings shall be and remain the property of Tenant. In the event Tenant removes any of the foregoing, Tenant agrees to repair any damage to the Premises or the Building. Any replacement of any property, fixtures or improvements of Landlord, whether made at Tenant's expense or otherwise, shall be and remain the property of Landlord.

6. Tenant shall use the services of an architect selected by Tenant for the preparation of all space planning and construction documents with respect to the renovation of the Premises ("Tenant Plans"). Tenant's architect, who must be fully licensed in the jurisdiction in which the Building is located and insured in accordance with industry standards, shall be subject to the approval of Landlord. The cost associated with the preparation of such documents, including any services of an engineering consultant approved by Landlord, which approval shall not be unreasonably withheld or delayed, shall be paid by Tenant. Tenant shall be responsible for all bidding and construction of the Tenant Work in the Premises. Landlord' agent, Lincoln Property Company, shall be notified of, and shall have the right to attend, all architectural and construction meetings, and shall have the right to enter and inspect the Premises, without notice to Tenant, during the construction and build-out. Tenant shall pay Landlord a construction management fee of one percent (1%) of the total hard and soft costs of the improvements.

7. Landlord shall provide Tenant with an allowance (the "**Allowance**") which shall be an amount equal to the product of (i) the total rentable area of the Premises multiplied by (ii) $45.00. The Allowance shall be available to Tenant in monthly installments upon timely submission of Tenant's statement with all required lien waivers and certificates as provided below as construction of the improvements to the Premises progresses and Tenant incurs expenses toward which the Allowance may be applied. Each statement delivered by Tenant shall show, in reasonable detail, all costs incurred and shall be accompanied by invoices of each contractor, subcontractor, supplier or vendor for which reimbursement is sought, and a lien waiver and a certificate, from each contractor and subcontractor whose contract has an aggregate value equal to or greater than $2,500, certifying that all payments then due such contractor or subcontractor and to laborers, materialmen and subcontractors under it have been made, except the amounts then being requisitioned. All contract documents and requisitions submitted by Tenant for reimbursement from the Tenant Allowance relating to design and construction shall be in the then current AIA format. Disbursement shall be made from the Allowance on or before thirty (30) days after Landlord receives Tenant's complete and correct statements with all required supporting documentation.

9. Tenant shall not be required to remove any of the initial Tenant improvements prior to, upon or after the expiration or earlier termination of the Lease, so long as the foregoing initial Tenant improvements are considered to be a normal Tenant office buildout.

EXHIBIT C

COMMENCEMENT AND EXPIRATION DATE MEMORANDUM

LANDLORD: EW BETHESDA OFFICE INVESTORS, LLC

TENANT: SUCAMPO PHARMACEUTICALS, INC.

LEASE DATE: _____, 2006

PREMISES: Located at 4520 East-West Highway, Suite 300, Bethesda, Maryland

Tenant hereby accepts the Premises as being in the condition required under the Lease, with all Tenant Improvements completed (except for minor punchlist items which Landlord agrees to complete).

The Commencement Date of the Lease is hereby established as May 15, 2007, the Rent Commencement Date is October 15, 2007, and the Expiration Date is February 15, 2017.

TENANT: SUCAMPO PHARMACEUTICALS, INC.,
a _____ corporation

By: _____
Print Name: _____
Its: _____

Approved and Agreed:

LANDLORD:

EW BETHESDA OFFICE INVESTORS, LLC,
a Delaware limited liability company

By: UBS Realty Investors LLC,
Its Manager

By: _____

_____
Its

EXHIBIT D

RULES AND REGULATIONS

This exhibit, entitled "Rules and Regulations," is and shall constitute *Exhibit D* to the Lease Agreement, dated as of the Lease Date, by and between landlord and Tenant for the Premises. The terms and conditions of this *Exhibit D* are hereby incorporated into and are made a part of the Lease. Capitalized terms used, but not otherwise defined, in this *Exhibit D* have the meanings ascribed to such terms in the Lease.

1. Tenant shall not use any method of heating or air conditioning other than that supplied by Landlord without the consent of Landlord.

2. All window coverings installed by Tenant and visible from the outside of the building require the prior written approval of Landlord.

3. Tenant shall not use, keep or permit to be used or kept any foul or noxious gas or substance or any flammable or combustible materials on or around the Premises, except to the extent that Tenant is permitted to use the same under the terms of Paragraph 32 of the Lease.

4. Tenant shall not alter any lock or install any new locks or bolts on any door at the Premises without the prior consent of Landlord.

5. Tenant shall not make any duplicate keys or key cards to the Premises or the Building without the prior consent of Landlord.

6. Tenant shall park motor vehicles in parking areas designated by Landlord except for loading and unloading. During those periods of loading and unloading, Tenant shall not unreasonably interfere with traffic flow around the Building or the Project and loading and unloading areas of other tenants. Tenant shall not park motor vehicles in designated parking areas after the conclusion of normal daily business activity.

7. Tenant shall not disturb, solicit or canvas any tenant or other occupant of the Building or Project and shall cooperate to prevent same.

8. No person shall go on the roof without Landlord's permission.

9. Business machines and mechanical equipment belonging to Tenant which cause noise or vibration that may be transmitted to the structure of the Building, to such a degree as to be objectionable to Landlord or other tenants, shall be placed and maintained by Tenant, at Tenant's expense, on vibration eliminators or in noise-dampening housing or other devices sufficient to eliminate noise or vibration.

10. All goods, including material used to store goods, delivered to the Premises of Tenant shall be immediately moved into the Premises and shall not be left in parking or receiving areas overnight.

11. Tenant is responsible for the storage and removal of all trash and refuse. All such trash and refuse shall be contained in suitable receptacles stored behind screened enclosures at locations approved by Landlord.

12. Tenant shall not store or permit the storage or placement of goods or merchandise in or around the common areas surrounding the Premises. No displays or sales of merchandise shall be allowed in the parking lots or other common areas.

13. Tenant shall not permit any animals, including but not limited to, any household pets (but excluding service animals, which are permitted), to be brought or kept in or about the Premises, the Building, the Project or any of the common areas.

INITIALS: _____

TENANT: _____

LANDLORD: _____

EXHIBIT E

FORM OF ESTOPPEL CERTIFICATE

_____ (herein "Tenant") hereby certifies to _____ and its successors and assigns that Tenant leases from _____ ("Landlord") approximately _____ square feet of space (the "Premises") in _____ pursuant to that certain Deed of Lease dated _____ by and between Landlord and Tenant, as amended by _____ (collectively, the "Lease"), a true and correct copy of which is attached hereto as Exhibit A. Tenant hereby certifies to _____, that as of the date hereof:

1. The Lease is in full force and effect and has not been modified, supplemented or amended, except as set forth in the introductory paragraph hereof.

2. Tenant is in actual occupancy of the Premises under the Lease and Tenant has accepted the same. Landlord has performed all obligations under the Lease to be performed by Landlord, including, without limitation, completion of all tenant work required under the Lease and the making of any required payments or contributions therefor. Tenant is not entitled to any further payment or credit for tenant work.

3. The initial term of the lease commenced _____and shall expire _____. Tenant has the following rights to renew or extend the term of the Lease or to expand the Premises: _____.

4. Tenant has not paid any rentals or other payments more than one (1) month in advance except as follows: _____.

5. Base Rent payable under the Lease is _____. Base Rent and additional Rent have been paid through _____. There currently exists no claims, defenses, rights of set-off or abatement to or against the obligations of Tenant to pay Base Rent or Additional Rent or relating to any other term, covenant or condition under the Lease.

6. There are no concessions, bonuses, free months' rent, rebates or other matters affecting the rentals except as follows: _____.

7. No security or other deposit has been paid with respect to the Lease except as follows:_____

8. To the best of the undersigned's knowledge, Landlord is not currently in default under the Lease and there are no events or conditions existing which, with or without notice or the lapse of time, or both, could constitute a default of the Landlord under the Lease or entitle Tenant to offsets or defenses against the prompt payment of rent except as follows: _____. Tenant is not in default under any of the terms and conditions of the lease nor is there now any fact or condition which, with notice or lapse of time or both, will become such a default.

9. Tenant has not assigned, transferred, mortgaged or otherwise encumbered its interest under the lease, nor subleased any of the Premises nor permitted any person or entity to use the Premises except as follows: _____.

10. Tenant has no rights of first refusal or options to purchase the property of which the Premises is a part.

11. The Lease represents the entire agreement between the parties with respect to Tenant's right to use and occupy the Premises.

Tenant acknowledges that the parties to whom this certificate is addressed will be relying upon the accuracy of this certificate in connection with their acquisition and/or financing of the Premises. IN WITNESS WHEREOF, Tenant has caused this certificate to be executed this day of_____,_____.

"TENANT"

_____

By: _____

Name:
Title:

EXHIBIT F

FORM OF SUBORDINATION, NON-DISTURBANCE AND ATTORNMENT AGREEMENT

THIS AGREEMENT is dated the _____day of _____, 19_____, and is made between _____, a _____ having a place of business and mailing address of _____("Mortgagee"), and _____, a _____ having a place of business and mailing address of _____ ("Tenant").

RECITALS:

I. Tenant has entered into a certain lease ("Lease") dated _____, 19_____, with _____, as lessor ("Landlord") covering certain premises known as _____, being part of a premises commonly known as _____ and located in _____ (the "Premises").

II. Mortgagee has agreed to make a mortgage loan in the amount of _____ ($_____) Dollars (together with all amendments, modifications, supplements, renewals, extensions, spreaders and consolidations thereto, the "Mortgage") to the Landlord, secured by the Premises, and the parties desire to set forth their agreement herein.

NOW, THEREFORE, in consideration of the Premises, and of the sum of One Dollar ($1.00) by each party in hand paid to the other, the receipt of which is hereby acknowledged, the parties hereby agree as follows:

A. Said Lease is and shall be subject and subordinate to the Mortgage insofar as it affects the real property of which the Premises form a part to the full extent of the amounts secured thereby and interest thereon.

B. Tenant's possession of the Premises will not be disturbed, and Tenant's rights and privileges under the Lease will not be reduced, as long as no Tenant Default, as defined in the Lease, exists.

C. Tenant agrees that it will attorn to and recognize any purchaser at a foreclosure sale under the Mortgage, any transferee who acquires the Premises by deed in lieu of foreclosure, and the successors and assigns of such purchaser(s), as its landlord for the unexpired balance (and any extensions, if exercised) of the term of said Lease upon the same terms and conditions set forth in said Lease.

D. If it becomes necessary to foreclose the Mortgage, Mortgagee will not terminate said Lease nor join Tenant in summary or foreclosure proceedings (unless such joinder shall be required to protect Mortgagee's interest under the Mortgage and in which case Mortgagee shall not seek affirmative relief from Tenant in such action or proceeding) so long as Tenant is not in default under any of the terms, covenants, or condition of said Lease.

E. If Mortgagee succeeds to the interest of Landlord under the Lease, Mortgagee shall not be:

1. liable for any act or omission of any prior landlord (including Landlord); or

2. liable for the return of any security deposit; or

3. subject to any offsets or defenses which Tenant might have against any prior landlord (including Landlord); or

4. bound by any rent or additional rent which Tenant might have paid for more than the current month to any prior landlord (including Landlord); or

5. bound by any amendment, modification, extensions or renewal of the Lease made without Lender's consent, which shall not be unreasonably withheld; or

6. bound by any representation or warranty made by any prior landlord (including Landlord).

F. This Agreement shall be binding upon and shall inure to the benefit of the parties hereto and their successors and assigns.

G. Tenant agrees to give Mortgagee, by registered or certified mail, return receipt requested, a copy of any notice of default served upon Landlord, provided that prior to such notice Tenant has been notified in writing (by way of Notice of Assignment of Rent and Leases, or otherwise) of the address of such Mortgagee. Tenant further agrees that Tenant shall not terminate the Lease nor, except to the extent that the following are expressly permitted by the Lease, abate rents thereunder or claim an offset against rents thereunder unless notice has been given to Mortgagee and Mortgagee has been the same period of time as Landlord is afforded under the Lease to cure such default.

H. Tenant acknowledges that it has notice that Landlord's interest under the Lease and the rents thereunder have been collaterally assigned to Mortgagee as part of the security for the obligations secured by the Mortgage. Notice from Mortgagee to Tenant directing payment of rent and all other sums due under the Lease shall have the same effect under the Lease as a notice to Tenant from Landlord and Tenant agrees to be bound by such notice. In the event of any conflict or inconsistency between a notice from Landlord and a notice from Mortgagee, the notice from Mortgagee shall control.

I. This Agreement shall not be modified, amended or terminated except by a writing duly executed by the party against whom the same is sought to be enforced.

J. This Agreement shall be governed by and construed in accordance with the internal laws (as opposed to the laws of conflicts) of the state in which the Premises are located.

IN WITNESS WHEREOF, the parties hereto have executed these presents as of the day and year first above written.

_____
Date

Mortgagee: _____

By: _____
Its: _____
Address: _____

_____

_____

_____
Date

Tenant: _____

By: _____
Its:

Exhibit 10.41

UBS

UBS Bank USA
C/O UBS Financial Services Inc.
100D Harbor Blvd./7th Floor
[ILLEGIBLE]

March 5, 2008

SUCAMPO PHARMACEUTICALS INC.
4520 EAST WEST HIGHWAY
THIRD FLOOR
BETHESDAMD 20814-3319

Account Number: 5V56045
Approved Facility Amount: $30,000,000.00

We are pleased to inform you that your application for a UBS Premier Variable Credit Line has been approved.

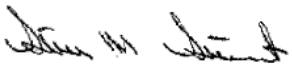
Here are some important terms that apply to your Credit Line

Interest Rate:	Prevailing 1-month LIBOR (Reset Daily)	+1%
Loan Term:	Payable on demand	
Frequency of Interest Payments:	Monthly*	
Minimum Initial Draw Amount:	$25,001	
Access Available Credit Via:	Credit Line checks or electronic disbursement***	

If you did not request checks for your Credit Line during the application process, or if you want to arrange an electronic disbursement, please contact your Financial Advisor. Your Financial Advisor can also assist you with any questions about your Credit Line.

Thank you for your business.

Sincerely,



Steven M. Stewart
Senior Vice President
UBS Bank USA

Note: Loans made through a Credit Line are extended solely at the discretion of UBS Bank USA under the terms of the Credit Line Agreement ("Agreement"). This is not a committed loan facility and UBS Bank USA is [ILLEGIBLE] obligated to you or any third party to satisfy your borrowing requests. Credit Line loan funds cannot be used to purchase, trade or carry securities; to repay an outstanding loan that was used to purchase, trade or carry securities; or to pay off a loan that you may have with an affiliate of UBS Bank USA.

* Loans extended by UBS Bank USA under your Credit Line are governed by the terms and conditions set forth in your Credit Line Agreement.

** Unless other payment arrangements are made, your monthly interest payment will be added to the outstanding principal of your Credit Line provided the Bank determines there is sufficient collateral, the loan, balance does not exceed your approved facility amount and all other requirements under the Agreement are met.

*** Changes in the value of the collateral supporting a Credit Line, as well as other factors described in the Credit Line Agreement may limit your ability to access funds from your Credit Line.

UBS

UBS Bank USA

Variable Credit Line Account Number: (if applicable) SV 56045 WS

Fixed Credit Line Account Number: (if applicable) SF

SS#/TIN 13-3929237

Internal Use Only

Borrower Agreement

BY SIGNING BELOW, THE BORROWER UNDERSTANDS, ACKNOWLEDGES AND AGREES THAT:

A. The Borrower has received and read a copy of this Borrower Agreement, the attached Credit Line Account Application and Agreement (including the Credit Line Agreement following this Borrower Agreement) and the Loan Disclosure Statement explaining the risk factors that the Borrower should consider before obtaining a loan secured by the Borrower's securities account. The Borrower agrees to be bound by the terms and conditions contained in the Credit Line Account Application and Agreement (which terms and conditions are incorporated by reference). Capitalized terms used in this Borrower Agreement have the meanings set forth in the Credit Line Agreement.

B. THE BORROWER UNDERSTANDS AND AGREES THAT UBS BANK USA MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE OPTION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION. THE BORROWER UNDERSTANDS AND AGREES THAT ALL ADVANCES ARE SUBJECT TO COLLATERAL MAINTENANCE REQUIREMENTS. I UNDERSTAND THAT UBS BANK USA MAY, AT ANY TIME, IN ITS DISCRETION, TERMINATE AND CANCEL THE CREDIT LINE REGARDLESS OF WHETHER OR NOT AN EVENT HAS OCCURRED.

C. UNLESS DISCLOSED IN WRITING TO UBS BANK USA AT THE TIME OF THIS AGREEMENT, AND APPROVED BY UBS BANK USA, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF THE UBS BANK USA. THE BORROWER WILL BE DEEMED TO REPEAT THIS AGREEMENT EACH TIME THE BORROWER REQUESTS AN ADVANCE.

D. THE BORROWER UNDERSTANDS THAT BORROWING USING SECURITIES AS COLLATERAL ENTAILS RISKS. SHOULD THE VALUE OF THE SECURITIES IN THE COLLATERAL ACCOUNT DECLINE BELOW THE REQUIRED COL LATERAL MAINTENANCE REQUIREMENTS, UBS BANK USA MAY REQUIRE THAT THE BORROWER POST ADDITIONAL COLLATERAL, REPAY PART OR ALL OF THE LOAN AND/OR SELL THE BORROWER'S SECURITIES. ANY REQUIRED LIQUIDATIONS MAY INTERRUPT THE BORROWER'S LONG-TERM INVESTMENT STRATEGIES AND MAY RESULT IN ADVERSE TAX CONSEQUENCES.

E. Neither UBS Bank USA nor UBS Financial Services Inc. provides legal or tax advice.

F. Upon execution of this Credit Line Account Application and Agreement, the Borrower will have supplied all of the information requested in the Application and the Borrower declares it as true and accurate and further agrees to promptly notify UBS Bank USA in writing of any material changes to any or all of the information contained in the Application including information relating to the Borrower's financial situation.

G. Subject to any applicable financial privacy laws and regulations, data regarding the Borrower and the Borrower's securities account may be shared with UBS Bank USA affiliates. Subject to any applicable financial privacy laws and regulations, the Borrower requests that UBS Bank USA share such personal financial data with non-affiliates of UBS Bank USA as is necessary or advisable to effect, administer or enforce, or to service, process or maintain, all transactions and accounts contemplated by this Agreement.

H. The Borrower authorizes UBS Bank USA and UBS Financial Services Inc. to obtain a credit report or other credit references concerning the Borrower (including making verbal or written inquiries concerning credit history) or to otherwise verify or update credit information given to UBS Bank USA at any time. The Borrower authorizes the release of this credit report or other credit information to UBS Bank USA affiliates as it deems necessary or advisable to effect, administer or enforce, or to service, process or maintain all transactions and accounts contemplated by this Agreement, and for the purpose of offering additional products, from time to time, to the Borrower. The Borrower authorizes UBS Bank USA to exchange Borrower information with any party it reasonably believes is conducting a legitimate credit inquiry in accordance with the Fair Credit Reporting Act. UBS Bank USA may also share credit or other transactional experience with the Borrower's designated UBS Financial Services Inc. Financial Advisor or other parties designated by the Borrower.

I. UBS Bank USA is subject to examination by various federal, state and self-regulatory organizations and that books and records maintained by UBS Bank USA are subject to inspection and subpoena by these regulators and by federal, state, and local law enforcement officials. The Borrower acknowledges that such regulators and officials may, pursuant to treaty or other arrangements, in turn disclose such information to the officials or regulators of other countries, and that U.S. courts may be required to compel UBS Bank USA to disclose such information to the officials or regulators of other countries. The Borrower agrees that UBS Bank USA may disclose to such regulators and officials information about the Borrower and transactions in the credit line account or other accounts at UBS BANK USA without notice to the Borrower. In addition, UBS Bank USA may in the context of a private dispute be required by subpoena or other judicial process to disclose information or produce documentation related to the Borrower, the credit line account or other accounts at UBS Bank USA. The Borrower acknowledges and agrees that UBS Bank USA reserves the right, in its sole discretion, to respond to subpoenas and judicial process as it deems appropriate.

J. To help the government fight the funding of terrorism and money laundering activities, Federal law requires all financial institutions to obtain, verify, and record information that identifies each person who opens an account. When the Borrower opens an account with UBS Bank USA, UBS Bank USA will ask for the Borrower's name, address, and other information that will allow UBS Bank USA to identify the Borrower. UBS Bank USA may also ask to see other identifying documents. UBS Financial Services Inc. and UBS Bank USA are firmly committed to compliance with all applicable laws, rules and regulations, including those related to combating money laundering. The Borrower understands and agrees that the Borrower must take all necessary steps to comply with the anti-money laundering laws, rules and regulations of the Borrower's country of origin, country of residence and the situs of the Borrower's transaction.

K. UBS Bank USA and its affiliates will act as creditors and, accordingly, their interests may be inconsistent with, and potentially adverse to, the Borrower's interest. As a lender and consistent with normal lending practice, UBS Bank USA may take any steps necessary to perfect its interest in the Credit Line, issue a call for additional collateral or force the sale of the Borrower's securities if the Borrower's actions or inactions call the Borrower's creditworthiness into question. Neither UBS Bank USA nor UBS Financial Services Inc. will act as Client's investment advisor with respect to any liquidation. In fact, UBS Bank USA will act as a creditor and UBS Financial Services Inc. will act as a securities intermediary.

L. The Borrower understands that, if the Collateral Account is a managed account with UBS Financial Services Inc., (i) in addition to any fees payable to UBS Financial Services Inc. in connection with the Borrower's managed account, interest will be payable to the Bank on an amount advanced to the Borrower in connection with the Credit Line Account, and (ii) the performance of the managed account might not exceed the managed account fees and the interest expense payable to the Bank in which case the Borrower's overall rate of return will be less than the costs associated with the managed account.

M. UBS Bank USA may provide copies of all credit line account statements to UBS Financial Services Inc. and to any Guarantor. The Borrower acknowledges and agrees that UBS Bank USA may share any and all information regarding the Borrower and the Borrower's accounts at UBS Bank USA with UBS financial Services Inc. UBS Financial Services Inc. may provide copies of all statements and confirmations concerning each Collateral Account to UBS Bank USA at such times and in such manner as UBS Bank USA may request and may share with UBS Bank USA any and all information regarding the Borrower and the Borrower's accounts with UBS Financial Services Inc.

IN WITNESS WHEREOF, the undersigned ("Borrower") has signed this Agreement, or has caused this Agreement to be signed in its name by its duly authorized representatives, as of the date indicated below.

DATE: _____

Name of Borrower **SUCAMPO PHARMACEUTICALS, INC.**

BY: /s/ Mariam Morris — Title: CFO OF SUCAMPO PHARMACEUTICALS, INC.

(Signature of Authorised Signatory of Borrower) MARIAM MORRIS — (Title of Authorized Signatory of Borrower)

BY: /s/ Ryuji Ueno — Title: CEO OF SUCAMPO PHARMACEUTICALS, INC.

(Signature of Authorised Signatory of Borrower) Ryuji Ueno — (Title of Authorized Signatory of Borrower)

The authorized signatory of the Borrower must be one of the Authorized Persons designated on the applicable UBS Bank USA supplemental form executed by the Borrower (e.g., the Supplemental Corporate Resolution Form (HP Form).

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UBS

UBS Bank USA

Variable Credit Line Account Number (if applicable)

S	V	5	6	0	4	5	W	S	

Fixed Credit Line Account Number (if applicable)

S	F								

SS#/TIN 13-3929237

Internal Use Only

Credit Line Agreement

Credit Line Agreement — Demand Facility

THIS CREDIT LINE AGREEMENT as it may be amended, supplemented or otherwise modified from time to time, this "Agreement") is made by and between the party or parties signing (as the Borrower on the Application to which this Agreement is attached (together and individually, the "Borrower") and UBS Bank USA (the "Bank") and, together with the Application, establishes the terms and conditions that will govern the uncommitted demand loan facility made available to the Borrower by the Bank. This Agreement becomes effective upon the earlier of (i) notice from the Bank (which notice may be oral or written) to the Borrower that the Credit Line has been approved and (ii) the Bank making an Advance to the Borrower.

1. Definitions

- "Advance" means any Fixed Rate Advance or Variable Rate Advance made by the Bank pursuant to this Agreement.
- "Advance Advice" means a written or electronic notice by the Bank, sent to the Borrower, the Borrower's financial advisor at UBS Financial Services Inc. or any other party designated by the Borrower to receive the notice, confirming that a requested Advance will be a Fixed Rate Advance and specifying the amount, fixed rate of interest and interest Period for the Fixed Rate Advance.
- "Application" means the Credit Line Account Application and Agreement that the Borrower has completed and submitted to the Bank.
- "Approved Amount" means the maximum principal amount of Advances that is permitted to be outstanding under the Credit Line at any time, as specified in writing by the Bank.
- "Breakage Costs" and "Breakage Fee" have the meanings specified in Section 6(b).
- "Business Day" means a day on which both of the Bank and UBS Financial Services Inc. are open for business. For notices and determinations of LIBOR, Business Day must also be a day for trading by and between banks in U.S. dollar deposits in the London interbank market.
- "Collateral" has the meaning specified in Section 8(a).
- "Collateral Account" means, individually and collectively, each account of the Borrower or pledgor at UBS Financial Services Inc. or UBS International Inc., as applicable, that is either identified as a Collateral Account on the Application to which this Agreement is attached or subsequently identified as a Collateral Account by the Borrower or Pledgor in writing, together with all successors to those identified accounts, irrespective of whether the successor account bears a different name or account number.
- "Credit Line" has the meaning specified in Section 2(a).
- "Credit Line Account" means each Fixed Rate Account and each Variable Rate Account of the Borrower that is established by the Bank in connection with this Agreement and either identified on the Application or subsequently identified as a Credit Line Account by the Bank by notice to the Borrower, together with all successors to those identified accounts, irrespective of whether any successor account bears a different name or account number.
- "Credit Line Obligations" means, at any time of determination, the aggregate of the outstanding principal amounts of all Advances, together with all accrued but unpaid interest on the outstanding principal amounts, any and all fees or other charges payable in connection with the Advances and any costs of collection (including reasonable attorneys' fees) and other amounts payable by the Borrower under this Agreement, and any and all other present or future obligations of the Borrower and the other respective Loan Parties under this Agreement and the related agreements, whether absolute or contingent, whether or not due or mature.
- "Event" means any of the events listed in Section 10.
- "Fixed Rate Advance" means any advance made under the Credit Line that accrues interest at a fixed rate.
- "Guarantor" means any party who guaranties the payment and performance of the Credit Line Obligations.
- "Guaranty Agreement" means an agreement pursuant to which a Guarantor agrees to guaranty payment of the Credit Line Obligations.
- "Interest Period" means, for a Fixed Rate Advance, the number of days, weeks or months requested by the Borrower and confirmed in the Advance Advice relating to the Fixed Rate Advance, commencing on the date of (i) the extension of the Fixed Rate Advance or (ii) any renewal of the Fixed Rate Advance and, in each case, ending on the last day of the period. If the last day is not a Business Day, then the Interest Period will end on the immediately succeeding Business Day. If the last Business Day would fall in the next calendar month, the Interest Period will end on the immediately preceding Business Day. Each monthly or longer Interest Period that commences on the last Business Day of a calendar month (or on any day for which there is no numerically corresponding day in the appropriate subsequent calendar month) will end on the last Business Day of the appropriate calendar month.
- "Joint Borrower" has the meaning specified in Section 7(a).
- "LIBOR" means, as of any date of determination:

  (i) for Variable Rate Advances, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity of 30 days as published in The Wall Street Journal "Money Rates" Table on the date of the Advance; and

  (ii) for Fixed Rate Advances, the prevailing London Interbank Offered Rate for deposits in U.S. dollars having a maturity corresponding to the length of the Interest Period applicable to the Advance as quoted by the Bloomberg service at 4:00 a.m. Eastern Standard Time on the date of the Advance.

  If the rate ceases to be regularly published by The Wall Street Journal or stated by the Bloomberg service, as applicable, LIBOR will be determined by the Bank in its sole and absolute discretion. For any day that is not a Business Day, LIBOR will be the applicable LABOR in effect immediately prior to that day.
- "Loan Party" means each Borrower, Guarantor and Pledgor, each in their respective capacities under this Agreement or any related agreement.
- "Person" means any natural person, company, corporation, firm,partnership, joint venture, limited liability company or limited liability partnership, association, organization or any other legal entity.
- "Pledgor" means each Person who pledges to the Bank any Collateral to secure the Credit Line Obligations (or to secure the obligations of any Guarantor with respect to the guaranty of the Credit Line Obligations). Pledgor will include (i) each Borrower who pledges

Collateral to secure the Credit Line Obligations, (ii) each Guarantor who has pledged collateral to secure the Credit Line Obligations or its obligations under a Guaranty Agreement, (iii) any spouse of a Borrower who executes a spouse's pledge and consent agreement with respect to a jointly held collateral account, (iv) any other joint account holder who executes a joint account holder pledge and consent agreement with respect to a jointly held collateral account, and (v) any other Person who executes a pledge agreement with respect to the Credit Line.

- "Premier Credit Line" means any Credit Line with an Approved Amount equal to or greater than $250,000.
- "Prime Credit Line" means any Credit Line with an Approved Amount less than $250,000.
- "Prime Rate" means the floating "Prime Rate" as published in The Wall Street Journal "Money Rates" Table from time to time. The Prime Rate will change as and when the Prime Rate as published in The Wall Street Journal. In the event that The Wall Street Journal does not publish a Prime Rate, the Prime Rate will be the rate as determined by the Bank in its sole and absolute discretion.
- "Securities Intermediary" has the meaning specified in Section 9.
- "UBS Financial Services Inc." means UBS Financial Services Inc. and its successors.
- "UBS-I" means UBS International Inc. and its successors.
- "Variable Rate Advance" means any advance made under the Credit Line that accrues interest at a variable rate.

2. Establishment of Credit Line; Termination

a) Upon the effectiveness of this Agreement, the Bank establishes an **UNCOMMITTED**, demand revolving line of credit (the "Credit Line") in an amount equal to the Approved Amount. The Bank may, from time to time upon request of the Borrower, without obligation and in its sole and absolute discretion, authorize and make one or more Advances to the Borrower. The Borrower acknowledges that the Bank has no obligation to make any Advances to the Borrower. The Bank may carry each Variable Rate Advance in a Variable Rate Account and may carry each Fixed Rate Advance in a Fixed Rate account, but all Advances will constitute extensions of credit pursuant to a single Credit Line. The Approved Amount will be determined, and may be adjusted from time to time, by the Bank in its sole and absolute discretion.

b) THE BORROWER AND EACH OTHER LOAN PARTY UNDER STAND AND AGREE THAT THE BANK MAY DEMAND FULL OR PARTIAL PAYMENT OF THE CREDIT LINE OBLIGATIONS, AT ITS SOLE AND ABSOLUTE DISCRETION AND WITHOUT CAUSE, AT ANY TIME, AND THAT NEITHER FIXED RATE ADVANCES NOR VARIABLE RATE ADVANCES ARE EXTENDED FOR ANY SPECIFIC TERM OR DURATION.

c) UNLESS DISCLOSED IN WRITING TO THE BANK AT THE TIME OF THE APPLICATION, AND APPROVED BY THE BANK, THE BORROWER AGREES NOT TO USE THE PROCEEDS OF ANY ADVANCE EITHER TO PURCHASE, CARRY OR TRADE IN SECURITIES OR TO REPAY ANY DEBT (I) USED TO PURCHASE, CARRY OR TRADE IN SECURITIES OR (II) TO ANY AFFILIATE OF THE BANK. THE BORROWER WILL BE DEEMED TO REPEAT THE AGREEMENT IN THIS SECTION 2(C) EACH TIME IT REQUESTS AN ADVANCE.

d) Prior to the first Advance under the Credit Line, the Borrower must sign and deliver to the Bank a Federal Reserve Form U-1 and all other documentation as the Bank may require. The Borrower acknowledges that neither the Bank nor any of its affiliates has advised the Borrower in any manner regarding the purposes for which the Credit Line will be used.

e) The Borrower consents and agrees that, in connection with establishing the Credit Line Account, approving any Advances to the Borrower or for any other purpose associated with the Credit Line, the Bank may obtain a consumer or other credit report from a credit reporting agency relating to the Borrower's credit history. Upon request, the Bank will inform the Borrower: (i) whether or not a consumer or other credit report was requested; and (ii) if so, the name and address of the consumer or other credit reporting agency that furnished the report.

f) The Borrower understands that the Bank will, directly or indirectly, pay a portion of the interest that it receives to the Borrower's financial advisor at UBS Financial Services Inc. or one of its affiliates. To the extent permitted by applicable law, the Bank may also charge the Borrower fees for establishing and servicing the Credit Line Account.

g) Following each month in which there is .activity in the Borrower's Credit Line Account in amounts greater than $1, the Borrower will receive an account statement showing the new balance, the amount of any new Advances, year to date interest charges, payments and other charges and credits that have been registered or posted to the Credit Line Account.

h) Each of the Loan Parties understands and agrees that the Bank may, at any time, in its discretion, terminate and cancel the Credit Line regardless of whether or not an Event has occurred. In the event the Bank terminates and cancels the Credit Line, the Credit Line Obligations shall be immediately due and payable in full. If the Credit Line Obligations are not paid in full, the Bank shall have the right, at its option, to exercise any or all of its remedies described in Section 10 of this Agreement.

3. Terms of Advances

a) Advances made under this Agreement will be available to the Borrower in the form, and pursuant to procedures, as are established from time to time by the Bank in its sole and absolute discretion. The Borrower and each Loan Party agree to provide all documents, financial or other information regarding any Advance as the Bank may request. Advances will be made by wire transfer of funds to an account as specified in writing by the Borrower or by any other method agreed upon by the Bank and the Borrower. The Borrower acknowledges and agrees that the Bank will riot make any Advance to the Borrower unless the collateral maintenance requirements that are established by the Bank in its sole and absolute discretion have been satisfied.

b) Each Advance made under a Premier Credit Line will be a Variable Rate Advance unless otherwise designated as a Fixed Rate Advance in an Advance Advice sent by the Bank to the Borrower. The Ban will not designate any Advance as a Fixed Rate Advance unless it has been requested to do so by the Borrower (acting directly or indirectly through the Borrower's UBS Financial Services Inc. financial advisor or other agent designated by the Borrower and acceptable to the Bank). Each Advance Advice will be conclusive and binding upon the Borrower, absent manifest error, unless the Borrower otherwise notifies the Bank in writing no later than the close of business, New York time, on the third Business Day after the Advance Advice is received by the Borrower.

c) Each Advance made under a Prime Credit Line will be a Variable Advance.

UBS

UBS Bank USA

Variable Credit Line Account Number (if applicable)
5V 56045 WS
Fixed Credit Line Account Number: (if applicable)
5F
SS#/TIN 13-3929237
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(d) Unless otherwise agreed by the Bank: (i) all Fixed Rate Advances must be in an amount of at least $100,000; and (II) all variable Rate Advances must be in an amount of at least $2,500. If the Borrower is a natural person, the initial Variable Rate Advance under the Credit Line must be in an amount equal to at least $25,001 (the "Initial Advance Requirement"). If the initial Advance requested by the Borrower is made in the form of a check drawn on the Credit Line that does not satisfy the initial Advance Requirement, then, in addition to and not in limitation of the Bank's rights, remedies, powers or privileges under this Agreement or applicable law, the Bank may, in its sole and absolute discretion:

(i) pay the check drawn by the Borrower if, prior to paying that check, the Bank makes another Advance to the Borrower, which Advance shall be in an amount not less than $25,001; or

(ii) pay the check drawn by the Borrower; or

(iii) decline to pay (bounce) the check.

If the Bank elects option (ii), no interest shall accrue on the amount of the Advance made by paying the check, and the amount of that Advance shall be due and payable to the Bank immediately (with or without demand by the Bank).

4. Interest

a) Each Fixed Rate Advance will bear interest at a fixed rate for the Interest Period specified in the related Advance Advice. The rate of interest payable on each Fixed Rate Advance will be determined by adding a percentage rate to LIBOR as of the date that the fixed rate is determined.

b) Each Variable Rate Advance under a Premier Credit Line will bear interest at a variable rate equal to LIBOR, adjusted daily, plus the per centage rate that (unless otherwise specified by the Bank in writing) is shown on Schedule I below for the Approved Amount of the Credit Line. For Premier Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in LIBOR and in the Approved Amount. On each day that LIBOR changes or the Approved Amount crosses one of the thresholds that is indicated on Schedule I (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rated Advances will change accordingly.

c) Each Variable Rate Advance under a Prime Credit Line will bear interest at a variable rate equal to the Prime Rate, adjusted daily, plus the percentage rate that (unless otherwise specified by the Bank in writing) is shown on the attached Schedule II and that corresponds to the aggregate principal amount outstanding under the Prime Credit Line on that day. For Prime Credit Lines, the rate of interest payable on Variable Rate Advances is subject to change without notice in accordance with fluctuations in the Prime Rate and in the aggregate amount outstanding under the Prime Credit Line. On each date that the Prime Rate changes or the aggregate principal amount outstanding under the Prime Credit Line crosses one of the thresholds that is indicated on Schedule II (or that is otherwise specified by the Bank in writing), the interest rate on all Variable Rate Advances will change accordingly.

5. Payments

a) **Each Fixed Rate Advance will be due and payable in full ON DEMAND or, if not earlier demanded by the Bank, on the last day of the applicable Interest Period.** Any Fixed Rate Advance as to which the Bank has not made a demand for payment and that is not paid in full or renewed, which renewal is in the sole and absolute discretion of the Bank (pursuant to procedures as may be established by the Bank) as another Fixed Rate Advance on or before the last day of its interest Period, will be automatically renewed on that date as a U.S. dollar denominated Variable Rate Advance in an amount (based, in the case of any conversion of a non-US. dollar denominated Fixed Rate Advance, upon the applicable, spot currency exchange rate as of the maturity date, as determined by the Bank) equal to the unpaid principal balance of the Fixed Rate Advance plus any accrued but unpaid interest on the Fixed Rate Advance, which Variable Rate Advance will then accrue additional interest at a variable rate as provided in this Agreement.

b) **Each Variable Rate Advance will be due and payable ON DEMAND.**

c) The Borrower promises to pay the outstanding principal amount of each Advance, together with all accrued but unpaid interest on each Advance, any and all fees or other charges payable in connection with each Advance, on the date the principal amount becomes due (whether by reason of demand, the occurrence of a stated maturity date, by reason of acceleration or otherwise). The Borrower further promises to pay interest in respect of the unpaid principal balance of each Advance from the date the Advance is made until it is paid in full. All interest will be computed on the basis of the number of days elapsed and a 360-day year. Interest on each Advance will be payable in arrears as follows:

(i) for Fixed Rate Advances — on the last day of the Interest Period (or if the Interest Period is longer than three months, on the last day of each three month period following the date of the Advance) and on each date that all or any portion of the principal amount of the Fixed Rate Advance becomes due or is paid; and

(ii) for Variable Rate Advances — on the twenty-second day of each month other than December, and on the thirty-first day of December, and on each date that all or any portion of the principal amount of the Variable Rate Advance becomes due or is paid.

To the extent permitted by law, interest charges on any Advance that are not paid when due will be treated as principal and will accrue interest at a variable rate from the date the payment of interest was due until it is repaid in full.

d) All payments of principal, interest or other amounts payable under this Agreement will be made in immediately available funds and in the same currency in which the Advance was made, which unless otherwise agreed by the Bank, will be U.S. dollars. UBS Financial Services Inc. or UBS International Inc., as applicable, may act as collecting and servicing agent for the Bank for the Advances. All payments will be made by wire transfer of funds to an account specified by the Bank or by another method agreed upon by the Bank and the Borrower. Upon receipt of all payments, the Bank will credit the same to the Credit Line Account. The Bank shall apply the proceeds of any payments in the following order; first to any Breakage Costs, Breakage Fee, other fees, costs of collection and expenses, second to accrued interest and third to the outstanding principal amount of the related Advance.

e) All payments must be made to the Bank free and clear of any and all present and future taxes (including withholding taxes), levies, imposts, duties, deductions, fees, liabilities and similar charges other than those imposed on the overall net income of the Bank. If so requested by the Bank, the Borrower will deliver to the Bank the original or a certified copy of each receipt evidencing payment of any taxes or, if no taxes are payable in respect of any payment under this Agreement, a certificate from each appropriate taxing authority, or an opinion of counsel in form and substance and from counsel acceptable to the Bank in its sole and absolute discretion, in either case stating that the payment is exempt from or not subject to taxes. If any taxes or other charges are required to be withheld or deducted from any amount payable by the Borrower under this Agreement,

the amount payable will be increased to the amount which, after deduction from the increased amount of all taxes and other charges required to be withheld or deducted from the amount payable, will yield to the Bank the amount stated to be payable under this Agreement If any of the taxes or charges are paid by the Bank, the Borrower will reimburse the Bank on demand for the payments, together with ail interest and penalties that may be imposed by any governmental agency. None of the Bank, UBS Financial Services Inc., UBS-I or their respective employees has provided or will provide legal advice to the Borrower or any Loan Party regarding compliance with (for the implications of the Credit Line and the related guaranties and pledges under) the laws (including tax laws) of the jurisdiction of the Borrower or any Loan Party or any other jurisdiction. The Borrower and each Loan Party are and shall be solely responsible for, and the Bank shall have no responsibility for, the compliance by the Loan Parties with any and all reporting and other requirements arising under any applicable laws.

f) In no event will the total interest and fees, if any, charged under this Agreement exceed the maximum interest rate or total fees permitted by law. In the event any excess interest or fees are collected, the same will be refunded or credited to the Borrower. If the amount of interest payable by the Borrower for any period is reduced pursuant to this Section 5(f), the amount of interest payable for each succeeding period will be increased to the maximum rate permitted by law until the amount of the reduction has been received by the Bank.

6. Prepayments; Breakage Charges

a) The Borrower may repay any Variable Rate Advance at any time, in whole or in part, without penalty.

b) The Borrower may repay any Fixed Rate Advance, in whole or in part. The Borrower agrees to reimburse the Bank, immediately upon demand, for any loss or cost ("Breakage Costs") that the Bank notifies the Borrower has been incurred by the Bank as a result of (i) any payment of the principal of a Fixed Rate Advance before the expiration of the Interest Period for the Fixed Rate Advance (whether voluntarily, as a result of acceleration, demand or otherwise), or (ii) the Customer's failure to take any Fixed Rate Advance on the date agreed upon, including any loss or cost (including loss of profit or margin) connected with the Bank's re-employment of the amount so prepaid or of those funds acquired by the Bank to fund the Advance not taken on the agreed upon date.

Breakage Costs will be calculated by determining the differential between the stated rate of interest for the Fixed Rate Advance and prevailing LIBOR and multiplying the differential by the sum of the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) multiplied by the actual number of days remaining in the Interest Period for the Fixed Rate Advance (based upon a 360-day year). The Borrower also agrees to promptly pay to the Bank an administrative fee ("Breakage Fee") in connection with any permitted or required prepayment. The Breakage Fee will be calculated by multiplying the outstanding principal amount of the Fixed Rate Advance (or the principal amount of Fixed Rate Advance not taken by the Borrower) by two basis points (0 02%). Any written notice from the Bank as to the amount of the loss or cost will be conclusive absent manifest error.

7. Joint Credit Line Account Agreement; Suspension and Cancellation

a) If more than one Person is signing this Agreement as the "Borrower," each party (a "joint Borrower") will be jointly and severally liable for the Credit Line Obligations, regardless of any change in business relations, divorce, legal separation, or other legal proceedings or in any agreement that may affect liabilities between the parties. Except as provided below for the reinstatement of a suspended or cancelled Credit Line, and unless otherwise agreed by the Bank in writing, the Bank may rely on, and each Joint Borrower will be responsible for, requests for Advances, directions, instructions and other information provided to the Bank by any joint Borrower.

b) Any Joint Borrower may request the Bank to suspend or cancel the Credit Line by sending the Bank a written notice of the request addressed to the Bank at the address shown on the Borrower's periodic Credit Line Account statements. Any notice will become effective three Business Days after the date that the Bank receives it, and each joint Borrower will continue to be responsible for paying: (i) the Credit Line Obligations as of the effective date of the notice, and (ii) all Advances that any joint Borrower has requested but that have not yet become part of the Credit Line Obligations as of the effective date of the notice. No notice will release or in any other way affect the Bank's interest in the Collateral. All subsequent requests to reinstate credit privileges must be signed by all Joint Borrowers comprising the Borrower, including the Joint Borrower requesting the suspension of credit privileges. Any reinstatement will be granted or denied in the sole and absolute discretion of the Bank.

c) All Credit Line Obligations will become immediately due and payable in full as of the effective date of any suspension or cancellation of the Credit Line. The Borrower will be responsible for the payment of all charges incurred on the Advances after any the effective date. The Bank will not release any Loan Party from any of the obligations under this Agreement or any related agreement until the Credit Line Obligations have been paid in full and this Agreement has been terminated.

8. Collateral; Grant of Security Interest; Set-off

a) To secure payment or performance of the Credit Line Obligations, the Borrower assigns, transfers and pledges to the Bank, and grants to the Bank a first priority lien and security interest in the following assets and rights of the Borrower, wherever located and whether owned now or acquired or arising in the future: (i) each Collateral Account; (ii) any and all money, credit balances, certificated and uncertificated securities, security entitlements, commodity contracts, certificates of deposit, instruments, documents, partnership interests, general intangibles, financial assets and other investment property now or in the future credited to or carried, held or maintained in any Collateral Account; (iii) any and all over-the-counter options, futures, foreign exchange, swap or similar contracts between the Borrower and either UBS Financial Services Inc. or any of its affiliates; (iv) any and all accounts of the Borrower at the Bank or any of its affiliates; (v) any and all supporting obligations and other rights ancillary or attributable to, or arising in any way in connection with, any of the foregoing; and (vi) any and all interest, dividends, distributions and other proceeds of any of the foregoing (collectively, the "Collateral").

b) The Borrower and, if applicable, any Pledgor on the Collateral Account will take all actions reasonably requested by the Bank to evidence, maintain and perfect the Bank's first priority security interest in, and to enable the Bank to obtain control over, the Collateral and any additional collateral pledged by the Pledgors, including but not limited to making, executing, recording and delivering to the Bank financing statements and amendments thereto, control agreements, notices, assignments, listings, powers, consents and other documents regarding the Collateral and the Bank's security interest in the Collateral in a form as the Bank reasonably may require. Each Loan Party irrevocably authorizes and appoints each of the Bank and UBS Financial Services Inc., as collateral agent, to act as their agent and attorney-in-fact to file any documents or to execute any documents in their name, with or without designation of authority. Each Loan Party acknowledges that it will be obligated in respect of the documentation as if it had executed the documentation itself.

c) The Borrower ,and, if applicable, any other Pledgor on the Collateral Account) agrees to maintain in a Collateral Account, at all times, Collateral having an aggregate lending value as specified by the Bank from time to time.

d) The Bank's sole duty for the custody, safe keeping and physical preservation of any Collateral in its possession will be to deal with the Collateral in the same manner as the Bank deals with similar property for its own account. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that the Bank will have no responsibility to act on any notice of corporate actions or events provided to holders of securities or other investment property included in the Collateral. The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees to (i) notify the Bank promptly upon receipt of any communication to holders of the investment property disclosing or proposing any stock split, stock dividend, extraordinary cash dividend, spin-off or other corporate action or event as a result of which the Borrower or Pledgor would receive securities, cash (other than ordinary cash dividends) or other assets in respect of the investment property, and (ii) immediately upon receipt by the Borrower or Pledgor of any of these assets, cause them to be credited to a Collateral Account or deliver them to or as directed by the Bank as additional Collateral.

e) The Borrower (and, if applicable, any other Pledgor on the Collateral Account) agrees that all principal, interest, dividends, distributions, premiums or other income and other payments received by the Bank or credited to the Collateral Account in respect of any Collateral may be held by the Bank as additional Collateral or applied by the Bank to the Credit Line Obligations. The Bank may create a security interest in any of the Collateral and may, at any time and at its option, transfer any securities or other investment property constituting Collateral to a securities account maintained in its name or cause any Collateral Account to be redesignated or renamed in the name of the Bank.

f) If a Collateral Account has margin features, the margin features will be removed by UBS Financial Services Inc. or UBS International Inc., as applicable, so long as there is no outstanding margin debit in the Collateral Account.

g) If the Collateral Account permits cash withdrawals in the form of check writing, access card charges, bill payment and/or electronic funds transfer services (for example, Resource Management Account®, Business Services Account BSA®, certain Basic Investment Accounts and certain accounts enrolled in UBS Financial Services Inc. Investment solutions programs), the "Withdrawal Limit" for the Collateral Account, as described in the documentation governing the account will be reduced on an ongoing basis so that the aggregate lending value of the Collateral remaining in the Collateral Account following the withdrawal may not be less than the amount required pursuant to Section 8(c).

h) In addition to the Bank's security interest, the Bank will at all times have a right to set off any or all of the Credit Line Obligations at or after the time at which they become due, whether upon demand, at a stated maturity date, by acceleration or otherwise, against all securities, cash, deposits or other property in the possesion of or at any time in any account maintained with the Bank or any of its affiliates by or for the benefit of the Borrower, whether carried individually or jointly with others. This right is in addition to, and not in limitation of, any right the Bank may have at law or otherwise.

i) The Bank reserves the right to disapprove any Collateral and to require the Borrower at any time to deposit into the Borrower's Collateral Account additional Collateral in the amount as the Bank requests or to substitute new or additional Collateral for any Collateral that has previously been deposited in the Collateral Account.

9. Control

For the purpose of giving the Bank control over each Collateral Account and in order to perfect the Bank's security interests in the Collateral, the Borrower and each Pledgor on the applicable Collateral Account consents to compliance by UBS Financial Services Inc., UBS-I or any other securities intermediary (in any case, the "Securities Intermediary") maintaining a Collateral Account with entitlement orders and instructions from the Bank (or from any assignee or successor of the Bank) regarding the Collateral Account without the further consent of the Borrower or any other Pledgor on the applicable Collateral Account. Without limiting the foregoing, the Borrower and each Pledgor on the Collateral Account acknowledges, consents and agrees that, pursuant to a control agreement entered into between the Bank and the Securities Intermediary:

a) The Securities Intermediary will comply with entitlement orders originated by the Bank regarding any Collateral Account without further consent from the Borrower or any Pledgor. The Securities Intermediary will treat all assets credited to a Collateral Account, including money and credit balances, as financial assets for purposes of Article 8 of the Uniform Commercial Code.

b) In order to enable the Borrower and any Pledgor on the applicable Collateral Account to trade financial assets that are from time to time credited to a Collateral Account, the Securities Intermediary may comply with entitlement orders originated by the Borrower or any Pledgor on the applicable Collateral Account (or if so agreed by the Bank, by an investment adviser designated by the Borrower or any Pledgor on the applicable Collateral Account and acceptable to the Bank and the Securities Intermediary) regarding the Collateral Account, but only until the time that the Bank notifies the Securities Intermediary, that the Bank is asserting exclusive control over the Collateral Account. After the Securities Intermediary has received a notice of exclusive control and has had a reasonable opportunity to comply, it will no longer comply with entitlement orders originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) concerning the Collateral Account. Notwithstanding the foregoing, however, and irrespective of whether it has received any notice of exclusive control, the Securities Intermediary will not comply with any entitlement order originated by the Borrower or any Pledgor (or by any investment adviser designated by the Borrower or any Pledgor) to withdraw any financial assets from a Collateral Account or to pay any money, free credit balance or other amount owing on a Collateral Account (other than cash withdrawals and payments not exceeding the "Withdrawal Limit" as contemplated in Section 8 (g)) without the prior consent of the Bank.

10. Remedies

a) If any of the following events (each, an "Event") occurs:

(i) the Borrower fails to pay any amount due under this Agreement;

(ii) the Borrower and/or any other relevant Loan Party fails to maintain sufficient Collateral in a Collateral Account or any Guarantor fails to maintain collateral as required under its Guaranty Agreement;

(iii) the Borrower or any other Loan Party breaches or fails to perform any other covenant, agreement, term or condition that is applicable to it under this Agreement or any related agreement, or any representation or other statement of the Borrower (or any Loan Party) in this Agreement or in any related agreement is incorrect in any material respect when made or deemed made;

(iv) the Borrower or any other Loan Party dies or is declared (by appropriate authority) incompetent or of unsound mind or is indicted or convicted of any crime or, if not an individual, ceases to exist;

(v) any voluntary or involuntary proceeding for bankruptcy, reorganization, dissolution or liquidation or similar action is commenced by or against the Borrower or any other Loan Party, or a trustee in bankruptcy, receiver, conservator or rehabilitator is appointed, or an assignment for the benefit of creditors is made, with respect to the Borrower or any other Loan Party or its property;

(vi) the Borrower or any Loan Party is insolvent, unable to pay its debts as they fall due, stops, suspends or threatens to stop or suspend payment of all or a material part of its debts, begins negotiations or takes any proceeding or other step with a view to readjustment, rescheduling or deferral of all or any part of its indebtedness, which it would or might otherwise be unable to pay when due, or proposes or makes a general assignment or an arrangement or composition with or for the benefit of its creditors;

(vii) a Collateral Account (or any account in which collateral provided by a Loan Party is maintained) or any portion thereof is terminated, attached or subjected to a levy;

(viii) the Borrower or any Loan Party fails to provide promptly all financial and other information as the Bank may request from time to time;

(ix) any indebtedness of the Borrower or any other Loan Party in respect of borrowed money (including indebtedness guar antied by the Borrower or any other Loan Party) or in respect of any swap, forward, cap, floor, collar, option or other derivative transaction, repurchase or similar transaction or any combination of these transactions is not paid when due, or any event or condition causes the indebtedness to become, or permits the holder to declare the indebtedness to be, due and payable prior to its stated maturity;

(x) final judgment for the payment of money is rendered against Client (or any Loan Party) and within thirty days from the entry of judgment has not been discharged or stayed pending appeal or has not been discharged within thirty days from the entry of a final order of affirmance on appeal;

(xi) any legal proceeding is instituted or any other event occurrs or condition exists that in the Bank's judgment calls into question (A) the validity or binding effect of this Agreement or any related agreement or any of the Borrower's (or any other Loan Party's) obligations under this Agreement or under any related agreement or (B) the ability of the Borrower (or any Loan Party) to perform its obligations under this Agreement, or under any related agreement; or

(xii) the Bank otherwise deems itself or its security interest in the Collateral insecure or the Bank believes in good faith that the prospect of payment or other performance by any Loan Party is impaired.

then, the Credit Line Obligations will become immediately due and payable (without demand) and the Bank may, in its sole and absolute discretion, liquidate, withdraw or sell all or any part of the Collateral and apply the same, as well as the proceeds of any liquidation or sale, to any amounts owed to the Bank, including any applicable Breakage Costs and Breakage Fee. The Bank will not be liable to any Loan Party in any way for any adverse consequences (for tax effect or otherwise) resulting from the liquidation of appreciated Collateral. Without limiting the generality of the foregoing, the sale may be made in the Bank's sole and absolute discretion by public sale on any exchange or market where business is then usually transacted or by private sale, and the Bank may purchase at any public or private sale. Any Collateral that may decline speedily in value or that customarily is sold on a recognized exchange or market may be sold without providing any Loan Party with prior notice of the sale. Each Loan Party agrees that, for all other Collateral, two calendar days notice to the Loan Party, sent to its last address shown in the Bank's account records, will be deemed reasonable notice of the time and place of any public sale or time after which any private sale or other disposition of the Collateral may occur. Any amounts due and not paid on any Advance following a Event will bear interest from the day following the Event until fully paid at a rate per annum equal to the interest rate applicable to the Advance immediately prior to the Event plus 2.00%. In addition to the Bank's rights under this Agreement, the Bank will have the right to exercise any one or more of the rights and remedies of a secured creditor under the Utah Uniform Commercial Code, as then in effect.

b) Nothing contained in this Section 10 will limit the right of the Bank to demand full or partial payment of the Credit Line Obligations, in its sole and absolute discretion and without cause, at any time.

c) All rights and remedies of the Bank under this Agreement are cumulative and are in addition to all other rights and remedies that the Bank may have at law or equity or under any other contract or other writing for the enforcement of the security interest herein or the collection of any amount due under this Agreement.

d) Any non-exercise of rights, remedies and powers by the Bank under this Agreement and the other documents delivered in connection with this Agreement shall not be construed as a waiver of any rights, remedies and powers. The Bank fully reserves its rights to invoke any of its rights, remedies and powers at any time it may deem appropriate.

11. Representations, Warranties and Covenants by the Loan Parties.

Each Borrower and each other Loan Party (if applicable) makes the following representations, warranties and covenants (and each Borrower will be deemed to have repeated each representation and warrany each time a Borrower requests an Advance) to the Bank:

a) Except for the Bank's rights under this Agreement and the rights of the Securities Intermediary under any account agreement, the Borrower and each relevant Pledgor owns the Collateral, free of any interest or lien in favor of any third party and free of any impediment to transfer;

b) Each Loan Party: (i) if a natural Person, is of the age of majority; (ii) is authorized to execute and deliver this Agreement and to perform its obligations under this Agreement and any related agreement; (iii) is not an employee benefit plan, as that term is defined by the Employee Retirement income Security Act of 1974, or an Individual Retirement Credit Line Account (and none of the Collateral is an asset of a plan or account); and (iv) unless the Loan Party advises the Bank to the contrary, in writing, and provides the Bank with a letter of approval, where required, from its employer, is not an employee or member of any exchange or of any corporation or firm engaged in the business of dealing, either as a broker or as principal, in securities, bills of exchange, acceptances or other forms of commercial paper;

c) Neither the Borrower nor any Pledgor on the Collateral Account will pledge the Collateral or grant a security interest in the Collateral to

UBS

UBS Bank USA

Variable Credit Line Account Number (if applicable)
S V 5 6 0 4 5 W S
Fixed Credit Line Account Number (if applicable)
S F
SS#/TIN 13-3929237
Internal Use Only

any party ether than the Bank or the Securities Intermediary, or permit the Collateral to become subject to any liens or encumbrances (other than those of the Bank and the Securities Intermediary), during the term of this Agreement;

d) Each Loan Party is not in default under any material contract, judgment, decree or order to which it is a party or by which it or its properties may be bound; and

e) Each Loan Party has duly filed all tax and information returns required to be filed and has paid all taxes, fees, assessments and other governmental charges or levies that have become due and payable, except to the extent such taxes or other charges are being contested in good faith and are adequately reserved against in accordance with GAAP.

12. Indemnification; Limitation on Liability of the Bank and the Securities Intermediary.

Borrower agrees to indemnify and hold harmless the Bank and the Securities Intermediary, their affiliates and their respective directors, officers, agents and employees against any and all claims, causes of action, liabilities, lawsuits, demands and damages, for example, any and all court costs and reasonable attorneys fees, in any way relating to or arising out of or in connection with this Agreement, except to the extent caused by the Bank's or Securities Intermediary's breach of its obligations under this Agreement. Neither the Bank nor the Securities Intermediary will be liable to any party for any consequential damages arising out of any act or omission by either of them with respect to this Agreement or any Advance or Collateral Account.

13. Acceptance of Application and Agreement; Applicable Law

THIS APPLICATION AND AGREEMENT WILL BE RECEIVED AND ACCEPTED BY BANK IN THE STATE OF UTAH, OR IF THIS APPLICATION AND AGREEMENT IS DELIVERED TO BANK'S AGENT, UBS FINANCIAL SERVICES INC., IT WILL BE RECEIVED AND ACCEPTED WHEN RECEIVED BY UBS FINANCIAL SERVICES INC.'S UNDERWRITING DEPARTMENT. DELIVERY OF THE APPLICATION AND AGREEMENT TO THE BORROWER'S FINANCIAL ADVISOR AT UBS FINANCIAL SERVICES INC. WILL NOT BE CONSIDERED RECEIPT OR ACCEPTANCE BY BANK. ALL DECISIONS MADE BY BANK REGARDING THE CREDIT LINE WILL BE MADE IN UTAH.

THIS AGREEMENT WILL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE LAWS OF THE STATE OF UTAH APPLICABLE TO AGREEMENTS MADE AND TO BE PERFORMED ENTIRELY IN THE STATE OF UTAH AND, IN CONNECTION WITH THE CHOICE OF LAW GOVERNING INTEREST, THE FEDERAL LAWS OF THE UNITED STATES.

14. Assignment

This Agreement may not be assigned by the Borrower without the prior written consent of the Bank. This Agreement will be binding upon and inure to the benefit of the heirs, successors and permitted assigns of the Borrower. The Bank may assign this Agreement, and this Agreement will inure to the benefit of the Bank's successors and assigns.

15. Amendment

This Agreement may be amended only by the Bank at any time by sending written notice, signed by an authorized officer of the Bank, of an amendment to the Borrower. The amendment shall be effective as of the date established by the Bank. This Agreement may not be amended orally. The Borrower or the Bank may waive compliance with any provision of this Agreement, but any waiver must be in writing and will not be deemed to be a waiver of any other provision of this Agreement.

16. Severability

If any provision of this Agreement is held to be invalid, illegal, void or unenforceable, by reason of any law, rule, and administrative order or judicial or arbitral decision, the determination will not affect the validity of the remaining provisions of this Agreement.

17. Choice of Forum; Waiver of Jury Trial

a) ANY SUIT, ACTION OR PROCEEDING ARISING OUT OF OR RELATED TO THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT OR ANY JUDGMENT ENTERED BY ANY COURT REGARDING THIS AGREEMENT OR THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT WILL BE BROUGHT AND MAINTAINED EXCLUSIVELY IN THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH OR IN THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH. EACH OF THE LOAN PARTIES IRREVOCABLY SUBMITS TO THE JURISDICTION OF THE COURTS OF THE THIRD JUDICIAL DISTRICT COURT FOR THE STATE OF UTAH AND OF THE UNITED STATES DISTRICT COURT FOR THE STATE OF UTAH FOR THE PURPOSE OF ANY SUCH ACTION OR PROCEEDING AS SET FORTH ABOVE AND IRREVOCABLY AGREES TO BE BOUND BY ANY JUDGMENT RENDERED THEREBY IN CONNECTION WITH SUCH ACTION OR PROCEEDING. EACH OF THE LOAN PARTIES IRREVOCABLY WAIVES, TO THE FULLEST EXTENT PERMITTED BY LAW, ANY OBJECTION WHICH IT MAY HAVE NOW OR IN THE FUTURE TO THE LAYING OF VENUE OF ANY SUCH ACTION OR PROCEEDING BROUGHT IN ANY SUCH COURT REFERRED TO ABOVE AND ANY CLAIM THAT ANY SUCH ACTION OR PROCEEDING HAS BEEN BROUGHT IN AN INCONVENIENT FORUM.

b) EACH OF THE LOAN PARTIES (FOR ITSELF, ANYONE CLAIMING THROUGH IT OR IN ITS NAME, AND ON BEHALF OF ITS EQUITY HOLDERS) IRREVOCABLY WAIVES ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY REGARDING ANY CLAIM BASED UPON OR ARISING OUT OF THIS AGREEMENT OR ANY OF THE TRANSACTIONS CONTEMPLATED BY THIS AGREEMENT.

c) Any arbitration proceeding between the Borrower (or any other Loan Party) and the Securities Intermediary, regardless of whether or not based on circumstances related to any court proceedings between the Bank and the Borrower (or the other Loan Party), will not provide a basis for any stay of the court proceedings.

d) Nothing in this Section 17 will be deemed to alter any agreement to arbitrate any controversies which may arise between the Borrower (or any other Loan Party) and UBS Financial Services Inc. or its predecessors, and any claims between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc. or its employees (whether or not they have acted as agents of the the Bank) will be arbitrated as provided in any agreement between the Borrower or the Loan Party, as applicable, and UBS Financial Services Inc.

18. State Specific Provisions and Disclosures

a) For residents of Ohio:

The Ohio laws against discrimination require that all creditors make credit equally available to all creditworthy customers, and that credit reporting agencies maintain separate credit histories on each individual upon request. The Ohio civil rights commission administers compliance with this law.

b) For residents of Oregon:

NOTICE TO BORROWER: DO NOT SIGN THIS AGREEMENT BEFORE YOU READ IT. THIS AGREEMENT PROVIDES FOR THE PAYMENT OF A PENALTY IF YOU WISH TO REPAY A FIXED RATE ADVANCE PRIOR TO THE DATE PROVIDED FOR REPAYMENT IN THE AGREEMENT.

c) For residents of Vermont:

NOTICE TO BORROWER: THE ADVANCES MADE UNDER THIS AGREEMENT ARE DEMAND LOANS AND SO MAY BE COLLECTED BY THE LENDER AT ANY TIME. A NEW LOAN MUTUALLY AGREED UPON AND SUBSEQUENTLY ISSUED MAY CARRY A HIGHER OR LOWER RATE OF INTEREST.

NOTICE TO JOINT BORROWER: YOUR SIGNATURE ON THE AGREEMENT MEANS THAT YOU ARE EQUALLY LIABLE FOR REPAYMENT OF THIS LOAN. IF THE BORROWER DOES NOT PAY, THE LENDER HAS A LEGAL RIGHT TO COLLECT FROM YOU.

d) For residents of California:

(i) Any person, whether married, unmarried, or separated, may apply for separate credit.

(ii) As required by law, you are notified that a negative credit report reflecting on your credit record may be submitted to a credit reporting agency if you fail to fulfill the terms of your credit obligations.

(iii) The Borrower will notify the Bank, within a reasonable time, of any change in the Borrower's name, address, or employment.

(iv) The Borrower will not attempt to obtain any Advance if the Borrower knows that the Borrower's credit privileges under the Credit Line have been terminated or suspended.

(v) The Borrower will notify the Bank by telephone, telegraph, letter, or any other reasonable means that an unauthorized use of the Credit Line has occurred or may occur as the result of the loss or theft of a credit card or other instrument identifying the Credit Line, within a reasonable time after the Borrower's discovery of the loss or theft, and will reasonably assist the Bank in determining the facts and circumstances relating to any unauthorized use of the Credit Line.

19. Account Agreement

Each Loan Party acknowledges and agrees that this Agreement supplements their account agreement(s) with the Securities Intermediary relating to the Collateral Account and, if applicable, any related account management agreement(s) between the Loan Party and the Securities Intermediary. In the event of a conflict between the terms of this Agreement and any other agreement between the Loan Party and the Securities Intermediary, the terms of this Agreement will prevail.

20. Notices

Unless otherwise required by law, all notices to a Loan Party may be oral or in writing, in the Bank's discretion, and if in writing, delivered or mailed by the United States mail, or by overnight carrier or by telecopy to the address of the Loan Party shown on the records of the Bank. Each Loan Party agrees to send notices to the Bank, in writing, at such address as provided by the Bank from time to time.

UBS

UBS Financial Services Inc.

Variable Credit Line Account Number (if applicable)
SV 56045 WS
Fixed Credit Line Account Number (if applicable)
SF
SS#/TIN 13-3929237
Internal Use Only

Schedule I to UBS Bank USA Credit Line Agreement

Schedule of Percentage Spreads Over LIBOR

Aggregate Approved Amount	Spread Over LIBOR
$250,000 to $499,999	2.750%
$500,000 to $999,999	1.750%
$1,000,000 to $4,999,999	1.500%
$5,000,000 and over	1.250%

Schedule II to UBS Bank USA Credit Line Agreement

Schedule of Percentage Spreads Over Prime

Outstanding Amount under Credit Line	Spread Over Prime
$0 to $24,999	3.125%
$25,000 to $49,999	2.625%
$50,000 to $74,999	2.125%
$75,000 to $99,999	1.625%
$100,000 to $249,999	1.375%

NOTICE TO CO-SIGNER (Traduccion en Ingles Se Requiere Por La Ley)

You are being asked to guarantee this debt. Think carefully before you do. If the borrower doesn't pay the debt, you will have to. Be sure you can afford to pay if you have to, and that you want to accept this responsibility.

You may have to pay to the full amount of the debt if the borrower does not pay. You may also have to pay late fees or collection costs, which increase this amount.

The creditor can collect this debt from you without first trying to collect from the borrower. The creditor can use the same collection methods against you that can be used against the borrower, such as suing you, garnishing your wages, etc. If this debt is ever in default, that fact may become a part of your credit record.

This notice is not the contract that makes you liable for the debt.

AVISO PARA EL FIADOR (Spanish Translation Required By Law)

Se le esta pidiendo que garantice esta deuda. Pienselo con cuidado antes de ponerse de acuerdo. Si la persona que ha pedido este prestamo no paga la deuda, usted tendra que pagarla. Este seguro de que usted podra pagar si sea obligado a pagarla y de que usted desea aceptar la responsabilidad.

Si la persona que ha pedido el prestamo no paga la deuda, es posible que usted tenga que pagar la suma total de la deuda, mas los cargos por tardarse en el pago o el costo de cobranza, lo cual aumenta el total de esta suma.

El acreedor (financiero) puede cobrarle a usted sin, primeramente, tratar de cobrarle al deudor. Los mismos metodos de cobranza que pueden usarse contra el deudor, podran usarse contra usted, tales como presentar una demanda en corte, quitar parte de su sueldo, etc. Si alguna vez no se cumpla con ia obligacion de pagar esta deuda, se puede incluir esa informacion en la historia de credito de usted.

Este aviso no es el contrato mismo en que se le echa a usted la responsabilidad de la deuda.

UBS

HP

CREDIT LINE SUPPLEMENTAL CORPORATE RESOLUTIONS (LENGTH)

ACCOUNT NUMBER
5V + 56045 - WS
5F - ____ - ____

Variable Credit Line Account Title (if applicable)
SUCAMPO PHARMACEUTICALS, INC.
Fixed Credit Line Account Title (if applicable)

The undersigned certifies that I am the Secretary or an Assistant Secretary of the Corporation indicated under the signature line below (the "Corporation") and that the Corporation is a duly organized and validly existing corporation in good standing in the jurisdiction of its incorporation. The following resolutions were duly adopted by the Board of Directors at a duly called meeting or by unanimous written consent of the Board of Directors.

WHEREAS, the Corporation seeks to benefit (directly or indirectly) from the opening and maintaining of one or more loan accounts at UBS Bank USA, and/or its successor firms, subsidiaries, affiliates, and any third party service providers (collectively, "UBS Bank USA"), on its own behalf or a related person or entity.

NOW, THEREFORE, BE IT RESOLVED THAT:

1) The Corporation is authorized to:

(a) enter into a Credit Line Agreement with UBS Bank USA under which UBS Bank USA will establish one or more loan accounts for the benefit of the Corporation (the "Credit Line Agreement");

(b) enter into a Credit Line Guaranty Agreement for the benefit of UBS Bank USA under which the Corporation will become liable to UBS Bank USA for the obligations of the third party named below, arising under or in connection with the third party's Credit Line Agreement with UBS Bank USA; and

(c) enter into any other agreements or documents in connection with the Credit Line Agreement and/or the Credit Line Guaranty Agreement.

2) The Corporation is authorized to:

(a) use any loan accounts established under the Credit Line Agreement to borrow and/or obtain credit from time to time from UBS Bank USA;

(b) guaranty the obligations of others to UBS Bank USA, in United States dollars or any foreign currency; and

(c) pledge, mortgage, assign or subject to a security interest or lien any property of any sort of the Corporation as security for any liability of the Corporation.

3) Each of the corporate officers named in the signature area below (each, together with persons designated under resolution number 4 below an "Authorized Person") is authorized individually, without counter signature or co-signature, to act on behalf of the Corporation to:

(a) enter into the Credit Line Agreement, establish loan accounts and pledge the Corporation's assets as collateral under the Credit Line Agreement or any related agreement as applicable;

(b) enter into the Credit Line Guaranty Agreement, assume all liabilities and pledge the Corporation's assets as collateral under the Credit Line Agreement or Guaranty Agreement or any other related agreement, as applicable;

(c) execute and deliver on behalf of the Corporation any and all relevant documents, and to deal with UBS Bank USA in connection with the Credit Line Agreement, loan and collateral accounts, Credit Line Guaranty Agreement and any related agreement, with no limits as to amount;

(d) obtain all services that UBS Bank USA offers, including the services set forth in these resolutions;

(e) bind the Corporation in respect of any agreements entered into with UBS Bank USA; and

(f) take any other actions on behalf of the Corporation necessary or appropriate to carry out the intent of these resolutions.

4) Each of the Authorized Persons acting as specified in these resolutions is authorized to appoint one or more attorneys-in-fact or agents to act on behalf of the Corporation in the same capacity as set forth in these resolutions, and is authorized to execute and deliver to UBS Bank USA any powers of attorney or other documents to effect or evidence the appointment.

5) UBS Bank USA is authorized, but not obligated, to deal with each Authorized Person individually, as follows, subject to the Corporation having completed documentation relating to the relevant products and services, and subject to UBS Bank USA policy and practice as in effect from time to time:

(a) to accept all instructions of any nature in connection with any loan account or collateral account given verbally, in writing, or by electronic communication by him or her on behalf of the Corporation, as the action of the Corporation without limit or further inquiry as to his or her authority or the validity or legality of the actions under any and all laws, rules and regulations applicable to the Corporation and the conduct of its business and affairs;

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Variable Credit Line Account Number (if applicable)
5V 56045 WS
Fixed Credit Line Account Number (if applicable)
5F

(b) to extend loans in connection with the loan accounts or-other credit facility for the Corporation; and

(c) to act, in effecting any of the transactions, upon instructions contained in any message received by it, transmitted by any form or agency or communication, which UBS Bank USA believes in good faith to have been originated by an Authorized Person acting as specified in these resolutions.

6) Any borrowing made from time to time on behalf of the Corporation with UBS Bank USA is ratified, confirmed and approved.

7) UBS Bank USA is authorized to rely upon the authority conferred by these resolutions until UBS Bank USA receives a certified copy of resolutions of the Corporation's Board of Directors revoking or modifying these resolutions. In the event that UBS Bank USA, for any reason, is uncertain as to the continuing effectiveness of the authority conferred by these resolutions or any other resolutions of the Corporation, UBS Bank USA will be indemnified against and held harmless from any claims, demands, expenses, loss or damage, including legal fees and costs, resulting from or arising out of its refraining from taking any action.

8) In consideration of UBS Bank USA acting in reliance upon these resolutions, it shall be fully protected in acting and the Corporation agrees to indemnify and save harmless UBS Bank USA from and against any and all loss, damage, liability, claims and expenses arising by reason of its acting in reliance upon these resolutions.

9) The Secretary or an Assistant Secretary of the Corporation is authorized and directed to certify to UBS Bank USA:

(a) that these resolutions have been duly adopted, are in full force and effect and are in accordance with the provisions of applicable law and regulation and the charter and by-laws of the Corporation;

(b) the identities of the Authorized Persons and, from time to time in the future any changes that may occur in the identities of the Authorized Persons as the changes are made, and

(c) that UBS Bank USA will be fully protected in relying on the certifications of the Secretary or an Assistant Secretary and will be indemnified and saved harmless from any and all loss, damage, liability, claims and expenses resulting from honoring the signature of any Authorized Person certified or refusing to honor any signature not certified.

10) I certify that there is no provision in the charter or by-laws of the Corporation limiting the power of the Board of Directors to adopt these resolutions and that these resolutions are in the conformity with the provisions of the charter and by-laws, neither of which requires or provides for any vote or consent of other than the Board of Directors to authorize the adoption of these resolutions.

11) I further certify that the persons listed below are duly elected or appointed qualified officers of the Corporation, hold in the Corporation the respective positions indicated above and that set forth opposite each respective name is the true and correct signature of the person.

12) This Supplemental Corporate Resolutions Form shall inure to the benefit of UBS Bank USA and the benefit of any successor corporations or firms, and of the assigns of UBS Bank USA and/or any successor corporations or firms.

/s/ KEI TOLLIVER
(Signature of Secretary or Assistant Secretary) DATE

KEI TOLLIVER, SECRETARY
(Print Name of Secretary or Assistant Secretary, as applicable)

PLEASE COMPLETE THE FOLLOWING INFORMATION:

Name of Corporation: SUCAMPO PHARMACEUTICALS, INC.

Jurisdiction where Corporation is organized: DELAWARE

Name of third-party whose Credit Line Agreement is being guaranteed (if applicable):

Corporate Officers Designated as "Authorized Persons" to act on behalf of the Corporation (AT LEAST TWO SHOULD BE DESIGNATED) please sign below:

MARIAM MORRIS, CFO OF SUCAMPO PHARMACEUTICALS, INC (Print Name and Title of Officer)	/s/ MARIAM MORRIS (Signature of Officer)
(Print Name and Title of Officer)	(Signature of Officer)
RYUJI UENO, CEO OF SUCAMPO PHARMACEUTICALS, INC (Print Name and Title of Officer)	/s/ RYUJI UENO (Signature of Officer)

UBS

UBS Bank USA
Account Number:
5V 56045 WS
Related Accounts
SS#/TIN 13-3929237
Internal Use Only

UBS Bank USA Know Your Customer:
Appropriateness and Client Verification

List all Borrower names below:
1) SUCAMPO PHARMACEUTICALS, INC
2) _____
3) _____

List all Guarantor names below:
1) SUCAMPO PHARMACEUTICALS, INC
2) _____
3) _____

In connection with the loan (the "Loan") to be offered by UBS Bank USA (the "Bank") to the Borrower(s) described above (together with the Guarantor(s), the "Clients") and the guaranty (the "Guaranty") to be executed by the Guarantor(s) in favor of the Bank, we hereby represent and warrant as follows:

1. Client Disclosure. The terms and conditions of, as applicable, the Loan and/or the Guaranty have been explained to the Clients including the following:
   - The Bank can "demand" repayment of the Loan at any time.
   - All "advances" under the Loan are subject to the Loan meeting the Bank's collateral value and other requirements.
   - If the Loan is a Fixed-Rate Loan, the Borrower(s) will be assessed a prepayment fee in the event all or a portion of the Loan is paid prior to maturity (whether as a result of voluntary prepayment, demand or otherwise).
   - If the Loan is a non-purpose Loan, the proceeds of the Loan may not be used (directly or indirectly) to purchase or carry securities, including margin stock.
   - If the value of the pledged collateral falls below the Bank's maintenance requirements, the Bank may require the Client to deposit additional collateral and/or sell the pledged collateral to repay the Loan.
2. Review. The request for an extension of credit has been reviewed for appropriateness by a Series 8 registered manager of UBS Financial Services.
3. Accurate Information. To the best of our knowledge, the information regarding the Client contained in the Loan and/or Guaranty agreement and furnished to the Bank in connection with the Loan and/or Guaranty is true and complete in all material respects.
4. Original Documentation. To the extent we had possession of and forwarded the documents executed in connection with the Loan and/or Guaranty to the Bank, we confirm that all such documents contain original and authentic signatures of the Client. All original, signed Loan documents we received have been forwarded to the Bank or its agents, and we have not retained any such original documents.
5. Client Residence. We further confirm that the Client resides at the address reflected in UBS Financial Services Inc.'s records,
6. Non-Purpose Loans. To the extent that the Loan is a non-purpose Loan and the proceeds are deposited into an account with us, we will monitor the use of such proceeds to ensure they are not used by the Client to purchase or carry margin stock (including, without limitation, payment of debit balances, if any, in the Client's account(s) with us).
7. Security Interest. We understand that the Bank has been granted a first-priority security interest in, and has control over, the "Securities Account(s)" to be referenced in the Guarantee agreement(s) entered into in connection with the Loan, and we have received a copy of such Guaranty agreement(s).

Name: /s/ HOWARD L. McMILLAN Signature: /s/ HOWARD L. McMILLAN Date: 2-26-08
Financial Advisor

Name: RICHARD N LEISHMAN Signature: /s/ RICHARD N LEISHMAN Date: 2/26/08
ASSOCIATE DIRECTOR
ADMINISTRATIVE MANAGER
Series 8 Registered Manager

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FR U-1
OMB No. 7100-0115
Approval expires March 31, 2008

BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM

Statement of Purpose for an Extension of Credit Secured by Margin Stock
(Federal Reserve Form U-1)

UBS BANK USA
Name of Bank

This report is required by law (15 U.S.C. §§78g and 78w; 12 CFR 221).

The Federal Reserve may not conduct or sponsor, and an organization (or a person) is not required to respond to, a collection of information unless it displays a currently valid OMB control number.

Public reporting burden for this collection of information is estimated to average 10 minutes per response, including the time to gather and maintain data in the required form and to review instructions and complete the information collection. Send comments regarding this burden estimated or any other aspect of this collection of information, including suggestions for reducing this burden to: Secretary, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, DC 20551; and to the Office of Management and Budget, Paperwork Reduction Project (7100-0011), Washington, DC 20503.

Instructions

1. This form must be completed when a bank extends credit in excess of $100,000 secured directly or indirectly, in whole or in part, by any margin stock.

2. The term "margin stock" is defined in Regulation U (12 CFR 221) and includes, principally: (1) stocks that are registered on a national securities exchange; (2) debt securities (bonds) that are convertible into margin stocks; (3) any over-the-counter security designated as qualified for trading in the National Market System under a designation plan approved by the Securities and Exchange Commission (NMS security); and (4) shares of most mutual funds, unless 95 per cent of the assets of the fund are continuously invested in U.S. government, agency, state, or municipal obligations.

3. Please print or type (if space is inadequate, attach separate sheet).

Part I To be completed by borrower(s)

1. What is the amount of the credit being extended? Maximum available credit as determined by UBS Bank USA from time to time based, in part, on the value of the securities pledged as collateral for the credit facility.

2. Will any part of this credit be used to purchase or carry margin stock? o Yes ☑ No

If the answer is "no," describe the specific purpose of the credit. The UBS Credit Line proceeds will only be used for legally permissible purposes, including personal, household, family or business purposes; but no portion of the UBS Credit Line proceeds will be used to purchase, trade or carry securities, or to repay debt incurred to purchase, trade or carry securities.

I (We) have read this form and certify that to the best of my (our) knowledge and belief the information given is true, accurate, and complete, and that the margin stock and any other securities collateralizing this credit are authentic, genuine, unaltered, and not stolen, forged, or counterfeit.

Signed:		Signed:	
/s/ MARIAM MORRIS	2/19/08	/s/ RYUJI UENO	2/19/08
Borrower's signature	Date	Borrower's signature	Date
MARIAM MORRIS, CFO		RYUJI UENO, CEO	
Print or type name		Print or type name	

This form should not be signed if blank.

A borrower who falsely certifies the purpose of a credit on this form or otherwise willfully or intentionally evades the provisions of Regulation U will also violate Federal Reserve Regulation X, "Borrowers of Securities Credit."

Exhibit 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the Registration Statement on Form S-8 (No. 333-147420) of Sucampo Pharmaceuticals, Inc. of our report dated March 24, 2008 relating to the consolidated financial statements and financial statement schedule, which appears in this Form 10-K.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland
March 24, 2008

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 Annual Report on Form 10-K 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) 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

   (c) 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: March 27, 2008

/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, Mariam E. Morris, certify that:

1. I have reviewed this Annual Report on Form 10-K 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) 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

   (c) 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: March 27, 2008

/s/ MARIAM E. MORRIS
Mariam E. Morris
Chief Financial Officer
(Principal Financial and Accounting Officer)

EXHIBIT 32.1

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

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

(1) The Annual Report on Form 10-K for the year ended December 31, 2007 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: March 27, 2008

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

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

(1) The Annual Report on Form 10-K for the year ended December 31, 2007 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: March 27, 2008

/s/ MARIAM E. MORRIS
Mariam E. Morris
Chief Financial Officer
(Principal Financial and Accounting Officer)