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

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2016

OR

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

For the transition period from to

Commission File Number: 001-33609

SUCAMPO PHARMACEUTICALS, INC.

(Exact name of registrant as specified in its charter)

Delaware	30-0520478
(State or other jurisdiction of incorporation or organization)	*(I.R.S. Employer Identification No.)*
805 King Farm Boulevard, Suite 550 Rockville, MD *(Address of principal executive offices)*	20850 *(Zip Code)*

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. ☒ Yes ☐ No

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

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

Large accelerated filer ☐	Accelerated filer ☒	Non accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

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

As of July 29, 2016, there were 45,821,058 shares of the registrant's class A common stock outstanding.

Sucampo Pharmaceuticals, Inc.

Form 10-Q Index

PART I — FINANCIAL INFORMATION

Item 1. ***Financial Statements***

SUCAMPO PHARMACEUTICALS, INC.
Condensed Consolidated Balance Sheets
(In thousands, except share and per share data)

	June 30, 2016 (unaudited)	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 127,981	$ 108,284
Product royalties receivable	18,744	22,792
Accounts receivable, net	18,167	22,759
Restricted cash	26,916	55,218
Inventories	21,570	33,121
Prepaid expenses and other current assets	24,324	9,186
Total current assets	237,702	251,360
Property and equipment, net	6,340	6,393
Intangible assets	139,347	130,315
Goodwill	71,839	60,937
In-process research and development	7,228	6,171
Deferred charge, non-current	1,400	1,400
Convertible note receivable	5,118	-
Other assets	770	605
Total assets	$ 469,744	$ 457,181
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 6,166	$ 11,213
Accrued expenses	13,298	10,886
Collaboration obligation	3,797	5,623
Income tax payable	6,274	6,507
Notes payable, current	21,679	39,083
Other current liabilities	4,421	14,815
Total current liabilities	55,635	88,127
Notes payable, non-current	202,410	213,277
Deferred revenue, non-current	937	1,088
Deferred tax liability, net	68,570	52,497
Other liabilities	18,428	15,743
Total liabilities	345,980	370,732
Commitments and contingencies (note 9)		
Stockholders' equity:		
Preferred stock, $0.01 par value; 5,000,000 shares authorized at June 30, 2016 and December 31, 2015; no shares issued and outstanding at June 30, 2016 and December 31, 2015	-	-
Class A common stock, $0.01 par value; 270,000,000 shares authorized at June 30, 2016 and December 31, 2015; 45,820,058 and 45,509,150 shares issued and outstanding at June 30, 2016 and December 31, 2015, respectively	458	455
Class B common stock, $0.01 par value; 75,000,000 shares authorized at June 30, 2016 and December 31, 2015; no shares issued and outstanding at June 30, 2016 and December 31, 2015	-	-
Additional paid-in capital	105,133	99,212
Accumulated other comprehensive income	49,692	13,412
Treasury stock, at cost; 3,009,942 shares at June 30, 2016 and December 31, 2015	(46,269)	(46,269)
Retained earnings	14,750	19,639
Total stockholders' equity	123,764	86,449
Total liabilities and stockholders' equity	$ 469,744	$ 457,181

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2016	2015	2016	2015
Revenues:				
Product royalty revenue	$ 18,735	$ 16,136	$ 35,451	$ 31,881
Product sales revenue	28,389	14,511	54,984	25,656
Research and development revenue	3,369	2,409	6,799	4,754
Contract and collaboration revenue	1,458	1,828	1,925	2,073
Total revenues	51,951	34,884	99,159	64,364
Costs and expenses:				
Costs of goods sold	20,354	7,260	43,692	13,370
Research and development	10,933	7,124	25,604	13,917
General and administrative	12,423	8,328	21,350	14,611
Selling and marketing	623	592	1,398	1,232
Total costs and expenses	44,333	23,304	92,044	43,130
Income from operations	7,618	11,580	7,115	21,234
Non-operating income (expense):				
Interest income	10	53	35	93
Interest expense	(5,972)	(265)	(12,242)	(541)
Other income (expense), net	(2,539)	2,063	(2,886)	1,860
Total non-operating income (expense), net	(8,501)	1,851	(15,093)	1,412
Income (loss) before income taxes	(883)	13,431	(7,978)	22,646
Income tax benefit (provision)	51	(3,855)	3,089	(6,662)
Net income (loss)	$ (832)	$ 9,576	$ (4,889)	$ 15,984
Net income (loss) per share:				
Basic	$ (0.02)	$ 0.21	$ (0.11)	$ 0.36
Diluted	$ (0.02)	$ 0.21	$ (0.11)	$ 0.35
Weighted average common shares outstanding:				
Basic	42,759	44,627	42,649	44,497
Diluted	42,759	46,199	42,649	46,046
Comprehensive income:				
Net income (loss)	$ (832)	$ 9,576	$ (4,889)	$ 15,984
Other comprehensive income (expense):				
Unrealized gain (loss) on pension benefit obligation	33	(12)	25	(19)
Unrealized gain on investments, net of tax effect	-	18	-	12
Foreign currency translation gain (loss)	20,700	(337)	36,255	(162)
Comprehensive income	$ 19,901	$ 9,245	$ 31,391	$ 15,815

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

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

	Class A Common Stock		Additional Paid-In	Accumulated Other Comprehensive	Treasury Stock		Retained	Total Stockholders'
	Shares	Amount	Capital	Income	Shares	Amount	Earnings	Equity
Balance at December 31, 2015	45,509,150	$ 455	$ 99,212	$ 13,412	3,009,942	$ (46,269)	$ 19,639	$ 86,449
Stock-based compensation expense	-	-	3,723	-	-	-	-	3,723
Stock issued under exercise of stock options	297,121	3	1,640	-	-	-	-	1,643
Stock issued under employee stock purchase plan	13,787	-	128	-	-	-	-	128
Windfall tax benefit from stock-based compensation	-	-	430	-	-	-	-	430
Unrealized gain on pension benefit obligation	-	-	-	25	-	-	-	25
Foreign currency translation	-	-	-	36,255	-	-	-	36,255
Net loss	-	-	-	-	-	-	(4,889)	(4,889)
Balance at June 30, 2016	45,820,058	$ 458	$ 105,133	$ 49,692	3,009,942	$ (46,269)	$ 14,750	$ 123,764

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

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

	Six Months Ended June 30,	
	2016	**2015**
Cash flows from operating activities:		
Net income (loss)	$ (4,889)	$ 15,984
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	30,098	215
Loss on disposal of property and equipment	533	76
Deferred tax provision (benefit)	4,960	(1,662)
Deferred charge	-	147
Stock-based compensation	3,723	3,889
Amortization of premiums on investments	-	76
Unrealized currency translations	9,123	(214)
Shortfall from stock-based compensation	(25)	(69)
Windfall benefit from stock-based compensation	(455)	-
Transfer and assignment of licensing rights	-	(2,000)
Changes in operating assets and liabilities:		
Product royalties receivable	4,048	2,440
Accounts receivable	10,833	(2,755)
Unbilled accounts receivable	(4,967)	(111)
Inventory	309	(308)
Prepaid and income taxes receivable and payable, net	(18,221)	988
Accounts payable	(5,751)	(221)
Accrued expenses	(3,466)	255
Accrued interest payable	(70)	(16)
Deferred revenue	119	(641)
Collaboration obligation	(1,826)	(226)
Other assets and liabilities, net	1,754	(763)
Net cash provided by operating activities	25,830	15,084
Cash flows from investing activities:		
Purchases of investments	-	(39,775)
Proceeds from sales of investments	-	2,398
Maturities of investments	-	19,421
Transfer and assignment of licensing rights	-	2,000
Convertible note receivable	(5,000)	-
Changes in restricted cash	10,598	-
Payment of squeeze-out liability for non-tendering R-Tech shareholders	(7,668)	-
Purchases of property and equipment	(823)	(47)
Net cash used in investing activities	(2,893)	(16,003)
Cash flows from financing activities:		
Payments of notes payable	(30,082)	(4,077)
Changes in restricted cash	17,676	-
Proceeds from exercise of stock options	1,643	3,734
Proceeds from employee stock purchase plan	128	38
Windfall benefit from stock-based compensation	455	1,005
Net cash (used in) provided by financing activities	(10,180)	700
Effect of exchange rates on cash and cash equivalents	6,940	(60)
Net increase (decrease) in cash and cash equivalents	19,697	(279)
Cash and cash equivalents at beginning of period	108,284	71,622
Cash and cash equivalents at end of period	$ 127,981	$ 71,343

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

1. Business Organization and Basis of Presentation

Description of the Business

Sucampo Pharmaceuticals, Inc., (Company) is a global biopharmaceutical company focused on innovative research and development of proprietary drugs to treat gastrointestinal, ophthalmic, autoimmune, inflammatory, and oncology disorders.

The Company currently generates revenue mainly from product royalties, upfront and milestone payments, product sales and reimbursements for development activities. The Company expects to continue to incur significant expenses for the next several years as the Company continues its research and development activities, seeks additional regulatory approvals and additional indications for approved products and other compounds and seeks strategic opportunities for in-licensing new products and product candidates.

AMITIZA® (lubiprostone) is being marketed for three gastrointestinal indications under the collaboration and license agreement (as amended in October 2014, the North America Takeda Agreement) with Takeda Pharmaceutical Company Limited (Takeda). These indications are chronic idiopathic constipation (CIC) in adults, irritable bowel syndrome with constipation (IBS-C) in adult women and opioid-induced constipation (OIC) in adults suffering from chronic non-cancer related pain. Under the North America Takeda Agreement, the Company is primarily responsible for clinical development activities, while Takeda is responsible for commercialization of AMITIZA in the United States (U.S.) and Canada. The Company and Takeda initiated commercial sales of AMITIZA in the U.S. for the treatment of CIC in April 2006, for the treatment of IBS-C in May 2008 and for the treatment of OIC in May 2013. Takeda is required to provide a minimum annual commercial investment during the current term of the North America Takeda Agreement and may reduce the minimum annual commercial investment when a generic equivalent enters the market. In October 2015, Health Canada approved AMITIZA for CIC in adults. In October 2014, the Company and Takeda executed amendments to the North America Takeda Agreement which, among other things, extended the term of the North America Takeda Agreement beyond December 2020. During the extended term beginning in January 2021, Takeda and the Company will split the annual net sales revenue of the branded AMITIZA products. We have also partnered with Par Pharmaceuticals, Inc. (Par) in connection with the settlement of our patent litigation with Par in the U.S. related to our AMITIZA (lubiprostone) 8 mcg and 24 mcg soft gelatin capsule products. Under our agreement with Par, we granted Par a non-exclusive license to market Par's generic version of lubiprostone 8 mcg soft gelatin capsule and 24 mcg soft gelatin capsule in the U.S. for the indications approved for AMITIZA beginning January 1, 2021, or earlier under certain circumstances. Beginning on January 1, 2021, Par will split with us the gross profits of the licensed products sold during the term of the agreement, which continues until each of our related patents has expired. In the event Par elects to launch an authorized generic form of lubiprostone, we agree to supply Par under the terms of a manufacturing and supply agreement at a negotiated price.

In Japan, AMITIZA is marketed under a license, commercialization and supply agreement (the Japan Mylan Agreement) that was transferred to Mylan, Inc. (Mylan) from Abbott Laboratories, Inc. (Abbott), as of February 2015, as part of Mylan's acquisition of a product portfolio from Abbott. The Company received approval of its new drug application (NDA) for AMITIZA for the treatment of chronic constipation (CC), excluding constipation caused by organic diseases, from Japan's Ministry of Health, Labour and Welfare (MHLW) in June 2012 and pricing approval in November 2012. AMITIZA is Japan's only prescription medicine for CC. The Company did not experience any significant changes in the commercialization of AMITIZA in Japan as a result of the transfer of the Japan Mylan Agreement from Abbott to Mylan.

In May 2015, the Company entered into an exclusive license, development, commercialization and supply agreement (the China Gloria Agreement) with Harbin Gloria Pharmaceuticals Co., Ltd. (Gloria), for AMITIZA in the People's Republic of China. Under the China Gloria Agreement, Gloria is responsible for all development activities and costs, as well as commercialization and regulatory activities, for AMITIZA in the People's Republic of China. The Company will be the exclusive supplier of AMITIZA to Gloria at an agreed upon supply price. Upon entering into the China Gloria Agreement, the Company received an upfront payment of $1.0 million. In June 2015, the China Food and Drug Administration accepted an Investigational New Drug (IND) application for a pivotal trial of AMITIZA in patients with CIC; as a result, the Company received an additional payment of $500,000 from Gloria. In addition to the $1.5 million in payments received and recognized as revenue through June 2015, the Company is eligible to receive an additional payment in the amount of $1.5 million upon the occurrence of a specified regulatory or commercial milestone event.

In October 2014, the Company entered into an exclusive license, development, commercialization and supply agreement (the Global Takeda Agreement) for lubiprostone with Takeda, through which Takeda has the exclusive rights to further develop and commercialize AMITIZA in all global markets, except the U.S., Canada, Japan and the People's Republic of China. Takeda became the marketing authorization holder in Switzerland in April 2015 and in the United Kingdom (U.K.), Austria, Belgium, Germany, Ireland, Netherlands and Luxembourg in early 2016, and is expected to become the marketing authorization holder in Italy and Spain in the second half of 2016.

Before the execution of the Global Takeda Agreement, the Company retained full rights to develop and commercialize AMITIZA for the rest of the world's markets outside of the U.S., Canada and Japan. In the U.K., the Company received approval in September 2012 from the Medicines and Healthcare Products Regulatory Agency (MHRA) for the use of AMITIZA to treat CIC. The Company made AMITIZA available in the U.K. in the fourth quarter of 2013. In July 2014, National Institute of Health and Care Excellence (NICE) published the technology appraisal guidance recommending the use of AMITIZA in the treatment of CIC and associated symptoms in adults who have failed laxatives. In January 2015, the Company successfully completed the European mutual recognition procedure (MRP) for AMITIZA for the treatment of CIC in select European countries, resulting in marketing authorizations in these countries.

In Switzerland, AMITIZA was approved to treat CIC in 2009. In 2012, the Company reached an agreement with the Bundesamt fur Gesundheit, (BAG), the Federal Office of Public Health in Switzerland, on a reimbursement price for AMITIZA in Switzerland, and began active marketing in the first quarter of 2013. In February 2014, the Company announced that the BAG revised several reimbursement limitations with which AMITIZA was first approved for reimbursement and inclusion in the Spezialitätenliste (SL) to allow all Swiss physicians to prescribe AMITIZA to patients who have failed previous treatments with at least two laxatives over a nine month period. In July 2014, AMITIZA was approved for the treatment of OIC in chronic, non-cancer adult patients by the Swissmedic, the Swiss Agency for Therapeutic Products, and in October 2015, the BAG added this indication to the SL.

In October 2015, Takeda obtained approval of the clinical trial application (CTA) for AMITIZA for the treatment of CIC and IBS-C in Russia that was submitted in June 2015. In December 2015, a CTA was filed for AMITIZA for the treatment of CIC, IBS-C and OIC in Mexico and South Korea. Takeda initiated phase 3 registration trials in Russia in March 2016 and in South Korea and Mexico in May 2016. An NDA for the treatment of CIC, IBS-C, and OIC was submitted in Israel in June 2015, and approved in July 2016. An NDA for the same indications was submitted in Kazakhstan in December 2015. Additional NDA submissions in 2016 are planned in various other markets.

As part of the acquisition of R-Tech in October 2015, the Company acquired all rights to RESCULA, an ophthalmology product used to lower intraocular pressure (IOP). In the U.S., the Company ceased marketing RESCULA in the fourth quarter of 2014 and no product was made available after the March 2015 expiration date. In May 2015, the Company returned all licenses for unoprostone isopropyl to R-Tech. RESCULA is being commercialized by Santen Pharmaceutical Co., Ltd in Japan, Dong-A Pharmaceutical, Co., Ltd in South Korea and Zuellig Pharma Co., Ltd in Taiwan.

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

Lubiprostone Alternate Formulation

The Company has been developing an alternate formulation of lubiprostone for both adult and pediatric patients who are unable to take or do not tolerate capsules and for naso-gastric tube fed patients. Takeda has agreed to fund 100% of the costs, up to a cap, of this alternate formulation work and the Company expects to initiate a phase 3 trial of the alternate formulation of lubiprostone in adults in the second half of 2016 and, if the trial is successful, to file an NDA in the U.S. for the alternate formulation for adults in the second half of 2017.

Lubiprostone for Pediatric Functional Constipation

The phase 3 program required to support an application for marketing authorization of lubiprostone for pediatric functional constipation comprises four clinical trials, two of which are currently ongoing and are both testing the soft gelatin capsule formulation of lubiprostone in patients 6 to 17 years of age. The first of the two trials is a pivotal 12-week, randomized, placebo-controlled trial which was initiated in December 2013 and completed enrollment in April 2016. The second trial is a follow-on, long-term safety extension trial that was initiated in March 2014. The Company expects to receive data from these trials in the second half of 2016. Following the successful completion of the phase 3 trial for the alternate formulation of lubiprostone in adult CIC patients, which Takeda is funding 100% up to a cap, as described above, the Company is also planning to initiate two additional trials in its phase 3 program for pediatric functional constipation in 2017, which will be in children aged 6 months to less than 6 years using the alternate formulation. Takeda has agreed to fund 67% of the costs, up to a cap, of this pediatric functional constipation program.

VAP-1 Inhibitor RTU-1096

RTU-1096 is an oral compound under development for indications in auto-immune/inflammatory and immune-oncology diseases. In the first quarter of 2016, the Company completed a phase 1 trial in healthy individuals that evaluated the safety and pharmacokinetics of the compound. No significant safety issues were reported during the seven-day study. There was evidence of inhibition of systemic VAP-1 at all doses tested and the trial provided evidence of proof of mechanism**.** The Company will also look to generate additional preclinical data in the emerging area of immune-oncology, to support partnership opportunities of combination therapy in cancer patients using check-point pathway inhibitors.

VAP-1 Inhibitor RTU-009

RTU-009 is a pre-clinical stage, injectable VAP-1 inhibitor that is planned to be studied in acute cerebral infarction. The Company plans to complete IND-enabling studies, and thereafter initiate clinical-stage development.

CPP-1X/Sulindac Combination Product

In January 2016, the Company entered into an option and collaboration agreement under which Cancer Prevention Pharmaceuticals, Inc. (CPP) has granted the Company the sole option to acquire an exclusive license to commercialize CPP-1X/sulindac combination product in North America. This product is currently in a phase 3 clinical trial, which is being conducted by CPP for the treatment of familial adenomatous polyposis (FAP). Under the agreement with CPP, the Company has the exclusive option to license this product in North America. There are currently no approved treatments for FAP. The ongoing phase 3 study is a 150-patient, three-arm, double-blind, randomized trial of the combination agent and the single agent comparators. Enrollment in the study has completed, and results from a Phase 3 futility analysis are expected to be available in the second half of 2016. The trial is expected to conclude in 2018. More information regarding the Company's arrangement with CPP is set forth in note 19 below.

Cobiprostone

In April 2016, the Company announced the discontinuation of development of cobiprostone for the treatment of proton pump inhibitor (PPI)-refractory non-erosive reflux disease (NERD) or symptomatic gastroesophageal reflux disease (sGERD), based on its analysis of top-line data from a Phase 2a study. While cobiprostone demonstrated significant benefit in some of the secondary measures of this exploratory study, the trial did not meet its primary endpoints. In July 2016, the Company announced the decision to discontinue the development of cobiprostone based on the results of a pre-specified futility analysis of the Phase 2a study of an oral spray formulation of cobiprostone for the prevention of oral mucositis in patients that are undergoing radio chemotherapy for head and neck cancer. The futility analysis indicated that the clinical benefit of cobiprostone was insufficient to support continuation of the study.

Basis of Presentation

The accompanying unaudited Condensed Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles in the United States of America (GAAP) and the rules and regulations of the U.S. Securities and Exchange Commission (SEC) for interim financial information. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements and should be read in conjunction with the Company's Consolidated Financial Statements as of and for the year ended December 31, 2015 included in the Company's Annual Report on Form 10-K, which was filed with the SEC on March 11, 2016, as amended. The financial information as of June 30, 2016 and for the six months ended June 30, 2016 and 2015 is unaudited. The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by GAAP. In the opinion of the Company's management, all adjustments, consisting only of normal recurring adjustments or accruals, considered necessary for a fair statement of the results of these interim periods have been included. The results of the Company's operations for any interim period are not necessarily indicative of the results that may be expected for any other interim period or for a full fiscal year.

The Condensed Consolidated Financial Statements include the accounts of the Company and its wholly owned subsidiaries: Sucampo AG (SAG) based in Zug, Switzerland, through which the Company conducts certain of its worldwide and European operations; Sucampo Pharma, LLC (SPL) based in Osaka, Japan, through which the Company conducts its Asian operations; R-Tech Ueno, Ltd., based in Kobe, Japan, through which the Company conducts manufacturing and certain development operations; Sucampo Pharma Americas LLC (SPA), based in Rockville, Maryland, through which the Company conducts its North American operations; and Sucampo Pharma Europe, Ltd. (SPE), based in Oxford, United Kingdom. All inter-company balances and transactions have been eliminated.

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

2. Summary of Significant Accounting Policies

Restricted Cash

As of June 30, 2016, restricted cash consisted of $26.9 million primarily related to the Credit Facility (see note 14); these funds will be held in a restricted account until at least $35 million of the Term Loans have been repaid or prepaid.

As of December 31, 2015, restricted cash consisted of $25.0 million related to the Credit Facility and $17.7 million related to the payment of the Ueno and Kuno Trust Notes (see note 13), which were settled on February 1, 2016, and $8.2 million related to the squeeze out of non-tendering R-Tech shareholders (see note 4), which was settled in January 2016.

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 and receivables. The Company places its cash, cash equivalents and restricted cash with highly rated financial institutions. As of June 30, 2016 and December 31, 2015, approximately $1.8 million or 1.2%, and $5.9 million or 3.6%, respectively, of the Company's cash, cash equivalents, and restricted cash were issued or insured by the United States government or other government agencies. The Company has not experienced any losses on these accounts related to amounts in excess of insured limits.

Revenues from Takeda, an unrelated party, accounted for 69.3% and 53.6% of the Company's total revenues for the three months ended June 30, 2016 and 2015, respectively, and 65.5% and 57.4% for the six months ended June 30, 2016 and 2015, respectively. Accounts receivable, unbilled accounts receivable and product royalties receivable from Takeda accounted for 89.2% and 78.1% of the Company's total accounts receivable, unbilled accounts receivable and product royalties receivable at June 30, 2016 and December 31, 2015, respectively.

Revenues from another unrelated party, Mylan, accounted for 28.2% and 41.6% of the Company's total revenues for the three months ended June 30, 2016 and 2015, respectively, and 29.3% and 39.8% for the six months ended June 30, 2016 and 2015, respectively. The Company depends significantly upon collaborations with Takeda and Mylan, and its activities may be impacted if these relationships are disrupted.

Fair Value of Financial Instruments

The carrying values of the Company's financial instruments approximate their fair values based on their short maturities, independent valuations or internal assessments. The Company's financial instruments include cash and cash equivalents, restricted cash, current and non-current investments, receivables, accounts payable, convertible notes receivable, collaboration obligation and accrued expenses. The carrying amounts of the notes payable at June 30, 2016 and 2015 approximated fair value and are classified as a Level 2 instrument.

Variable Interest Entities

The Company performs initial and on-going evaluation of the entities with which it has variable interests, such as equity ownership, in order to identify entities (i) that do not have sufficient equity investment at risk to permit the entity to finance its activities without additional subordinated financial support or (ii) in which the equity investors lack an essential characteristic of a controlling financial interest. Such entities are classified as variable interest entities ("VIE" or "VIEs"). If an entity is identified as a VIE, the Company performs an assessment to determine whether the Company has both (i) the power to direct activities that most significantly impact the VIE's economic performance and (ii) have the obligation to absorb losses from or the right to receive benefits of the VIE that could potentially be significant to the VIE. If both of these criteria are satisfied, the Company is identified as the primary beneficiary of the VIE. As of June 30, 2016, CPP, in which the Company held a variable interest, was determined to be a VIE. See note 19 for additional information.

Recent Accounting Pronouncements

In April 2015, the FASB issued ASU Number 2015-03, *Interest - Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs* (ASU 2015-03). ASU 2015-03 specifies that debt issuance costs related to a note shall be reported in the balance sheet as a direct reduction from the face amount of the note. ASU 2015-03 is effective for annual reporting periods beginning after December 15, 2015, and interim periods within those fiscal years. ASU 2015-03 had no effect on the Company's results of operations or liquidity.

In November 2015, the FASB issued ASU No. 2015-17, *Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes*, (ASU 2015-17). This new guidance requires businesses to classify deferred tax liabilities and assets on their balance sheets as noncurrent. Under existing accounting, a business must separate deferred income tax liabilities and assets into current and noncurrent. ASU 2015-17 was issued as a way to simplify the way businesses classify deferred tax liabilities and assets on their balance sheets. Public companies must apply ASU 2015-17 to fiscal years beginning after December 15, 2016. Companies must follow the requirements for interim periods within those fiscal years, but early adoption at the beginning of an interim or annual period is allowed for all entities. The Company has elected to early adopt the guidance and has applied the guidance on a prospective basis. The adoption had no impact on the Company's consolidated statements of operations and comprehensive income, changes in stockholders' equity, and cash flows for the three and six months ended June 30, 2016 and 2015.

In January 2016, the FASB issued Accounting Standards Update 2016-01, *Recognition and Measurement of Financial Assets and Financial Liabilities*, which requires that most equity investments be measured at fair value, with subsequent changes in fair value recognized in net income (other than those accounted for under equity method of accounting). This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2017. The Company is currently assessing the impact of the adoption of this guidance on its consolidated financial statements and disclosures.

In February 2016, the FASB issued Accounting Standards Update 2016-02, *Leases (Topic 842)* in which it provided new guidance related to accounting for leases. The new standard requires the recognition of assets and liabilities arising from lease transactions on the balance sheet and the disclosure of key information about leasing arrangements. Accordingly, a lessee will recognize a lease asset for its right to use the underlying asset and a lease liability for the corresponding lease obligation. Both the asset and liability will initially be measured at the present value of the future minimum lease payments over the lease term. Subsequent measurement, including the presentation of expenses and cash flows, will depend on the classification of the lease as either finance or an operating lease. Initial costs directly attributable to negotiating and arranging the lease will be included in the asset. For leases with a term of 12 months or less, a lessee can make an accounting policy election by class of underlying asset to not recognize an asset and corresponding liability. Lessees will also be required to provide additional qualitative and quantitative disclosures regarding the amount, timing and uncertainty of cash flows arising from leases. These disclosures are intended to supplement the amounts recorded in the financial statements and provide additional information about the nature of an organization's leasing activities. The new standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those years, with early adoption permitted. In transition, lessees are required to recognize and measure leases at the beginning of the earliest period presented using a modified retrospective approach. The transition guidance also provides specific guidance for sale and leaseback transactions, build-to-suit leases and amounts previously recognized in accordance with the business combinations guidance for leases. The Company is currently evaluating its expected adoption method and the impact of this new standard on its consolidated financial statements and disclosures.

In March 2016, the FASB issued Accounting Standards Update 2016-09, *Improvements to Employee Share Based Payment Accounting*, which requires all of the tax effects related to share-based payments to be recorded through the income statement. The new guidance also removes the requirement to delay recognition of a windfall tax benefit until it reduces current taxes payable; instead, it is required to be recognized at the time of settlement, subject to normal valuation allowance considerations. This guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. The Company is currently assessing the impact of the adoption of this guidance on its consolidated financial statements and disclosures.

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 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 three and six months ended June 30, 2016 and 2015 is shown below:

(In thousands, except per share data)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Net income (loss)	$ (832)	$ 9,576	$ (4,889)	$ 15,984
Basic net income (loss) per share:				
Weighted average class A common shares outstanding	42,759	44,627	42,649	44,497
Basic net income (loss) per share	$ (0.02)	$ 0.21	$ (0.11)	$ 0.36
Diluted net income (loss) per share:				
Weighted average class A common shares outstanding	42,759	44,627	42,649	44,497
Assumed exercise of stock options under the treasury stock method	-	1,572	-	1,549
	42,759	46,199	42,649	46,046
Diluted net income (loss) per share	$ (0.02)	$ 0.21	$ (0.11)	$ 0.35

The following securities were excluded from the computation of diluted net income (loss) per share as their effect would have been anti-dilutive for the three and six months ended June 30, 2016 and 2015:

(In thousands)	Three Months Ended June 30, 2016	Three Months Ended June 30, 2015	Six Months Ended June 30, 2016	Six Months Ended June 30, 2015
Employee stock options	5,382	1,083	5,382	733

4. Acquisition of R-Tech

On October 20, 2015, the Company acquired approximately 98% of the outstanding shares of R-Tech Ueno, Ltd., a Japanese company (R-Tech). The Company acquired the remaining 2% of outstanding shares of R-Tech through a squeeze-out process under Japanese law on December 8, 2015. The total consideration for the acquisition was approximately $275 million. This transaction was accounted for under the acquisition method of accounting, with the Company as the acquirer. Under the acquisition method of accounting, the assets and liabilities of R-Tech were recorded as of the acquisition date at their respective fair values, and combined with those of the Company.

The purchase price allocation was based upon preliminary estimates using information that was available to management at the time the financial statements were prepared. These estimates and assumptions are subject to change within the measurement period, up to one year from the acquisition date. Accordingly, the allocation may change. The Company continues to gather information about the fair value of all assets and liabilities, including intangible assets, acquired and deferred tax assets and liabilities. In the three months ended June 30, 2016, other current assets were increased $367,000, property, plant and equipment was decreased $319,000, deferred tax liability, net was increased $438,000, and goodwill was increased $390,000. The Company expects to finalize the allocation of the purchase price during the 3rd quarter of 2016. Acquisition related costs are expensed when incurred and are included in general and administrative expenses in the consolidated statement of operations and comprehensive income.

The preliminary allocation of the purchase price based upon estimated fair value of assets acquired and liabilities assumed is as follows:

(In thousands)	
Cash	$ 62,097
Accounts receivable	8,299
Inventory	37,563
Other current assets	3,792
Property, plant and equipment	2,796
Other long term assets	449
Accounts payable and accrued liabilities	(11,598)
Income tax payable	(5,025)
Other liabilities, current	(3,282)
Deferred tax liability, net	(63,365)
Other liabilities, long term	(9,347)
R-Tech shares of Sucampo stock (treasury stock)	43,956
Total fair value of tangible assets acquired and liabilities assumed	66,335
Acquired in-process research and development	6,200
Acquired intangible assets	134,600
Goodwill	61,618
Total purchase price	$ 268,753

Total purchase price	268,753
Settlement of net receivable from pre-existing relationship	6,364
Total consideration	$ 275,117
Acquisition, net of acquired cash	161,187
Acquired cash	62,097
Purchase of treasury stock	43,956
Squeeze out liability for non-tendering R-Tech shareholders	7,668
Other	209
Total consideration	$ 275,117

The following unaudited pro forma information is presented as if the acquisition had occurred on January 1, 2015, and combines the historical results of operations of the Company and R-Tech for the three and six months ended June 30, 2015.

(In thousands)	**Three Months Ended June 30, 2015**	**Six Months Ended June 30, 2015**
Pro forma revenue	$ 43,084	$ 86,000
Pro forma net income (loss)	(1,991)	(4,337)

5. Segment Information

The Company has one operating segment which is the development and commercialization of pharmaceutical products.

Summarized product category and geographic information is shown in the tables below.

Product Category Information

Revenues for product categories are attributed based on the following categories.

Product royalty revenue represents royalty revenue earned on the net sales of AMITIZA in North America. Product sales revenue represents drug product net sales of AMITIZA in North America, Japan and Europe and drug product net sales of RESCULA in Japan. Research and development revenue represents funded development work primarily related to AMITIZA. Contract and collaboration revenue represents the amortization of up-front payments under the North America Takeda Agreement and release of the collaboration obligation under the Global Takeda Agreement (see note 15).

Company revenues by product category for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	**2015**	**2016**	**2015**
Product royalty revenue	$ 18,735	$ 16,136	$ 35,451	$ 31,881
Product sales revenue - AMITIZA	27,001	14,493	50,121	25,644
Product sales revenue - RESCULA	1,388	18	4,863	12
Research and development revenue	3,369	2,409	6,799	4,754
Contract and collaboration revenue	1,458	1,828	1,925	2,073
Total	$ 51,951	$ 34,884	$ 99,159	$ 64,364

Geographical Information

Revenues are attributable to countries based on the location of the customer. The Company operates a manufacturing facility in Japan that supplies products to customers as well as the Company's subsidiaries in other countries. The sales from the manufacturing operations to other countries are included in the net sales of the country in which the manufacturing location is based. The intersegment portions of such sales are excluded to derive consolidated revenues. The Company's country of domicile is the United States.

Company revenues by geographic location for the three and six months ended June 30, 2016 and 2015 were as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	**2016**	**2015**	**2016**	**2015**
United States	$ 34,529	$ 18,706	$ 63,162	$ 36,931
Japan	$ 16,011	$ 14,500	34,165	25,657
Rest of the world	$ 1,411	$ 1,678	1,832	1,776
Total	$ 51,951	$ 34,884	$ 99,159	$ 64,364

The Company's long-lived assets by geographic location where located on June 30, 2016 and December 31, 2015 were as follows:

(In thousands)	**June 30, 2016**	**December 31, 2015**
United States	$ 3,181	$ 3,105
Japan	3,116	3,232
Rest of the world	43	56
Total	$ 6,340	$ 6,393

6. Fair Value measurements

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

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

The Company has elected the fair value option on its investment in CPP; as such, it is measured at fair value on a recurring basis. As of June 30, 2016, the fair value of the convertible note is $5.1 million using level 3 inputs (see note 19) provided by a valuation specialist using unobservable market level inputs and assumptions which include accrued interest and prepayment assumptions. The Company re-evaluates the fair value on a quarterly basis. Changes in the fair value can result from adjustments to the market level inputs and assumptions. The election was made upon the acquisition of the financial asset and cannot be revoked. The changes in fair value are recorded in current earnings within Other Income. As of June 30, 2016, there were no changes in the fair value of the note recorded in earnings related to the convertible note received from CPP. There were no other financial instruments measured at fair value on a recurring basis as of June 30, 2016.

7. Restructuring

In December 2015, the Company adopted a plan to restructure certain of its operations and to consolidate certain functions in the Company's corporate headquarters located in Rockville, Maryland, and in the Company's Japanese subsidiaries. During the six months ended June 30, 2016, the Company recorded pretax charges of approximately $1.7 million in connection with these restructuring activities. The restructuring plan primarily included headcount reductions in connection with the ongoing integration of R-Tech (see note 4). These costs are reflected within operating expenses between research and development expenses, general and administrative expenses, and selling and marketing expenses, and are detailed below:

(In thousands)	Incurred during the six months ended June 30, 2016
Termination benefits	$ 1,604
Asset impairments	83
Total	$ 1,687

As of June 30, 2016, a restructuring accrual of $1.4 million for termination benefits was included in accrued liabilities. The following table summarizes the accrued restructuring costs at June 30, 2016.

(In thousands)	Termination Benefits	Facility Related	Contract & Other Costs	Total
Balance at December 31, 2014	$ -	$ -	$ -	$ -
Expenses incurred	953	-	-	953
Amounts paid	(102)	-	-	(102)
Balance at December 31, 2015	$ 851	$ -	$ -	$ 851
Expenses incurred	$ 1,604	$ -	$ -	$ 1,604
Amounts paid	(1,081)	-	-	(1,081)
Foreign currency translation adjustment	42	-	-	42
Balance at June 30, 2016	$ 1,416	$ -	$ -	$ 1,416

The Company expects to record additional restructuring charges in 2016 related to this program and in connection with the ongoing integration of R-Tech. The Company has incurred total restructuring charges under this plan of $2.6 million through June 30, 2016.

8. Inventory

Inventories are valued under a weighted average costing method and are stated at the lower of cost or net realizable value. Inventories consist of raw materials, work-in-process and finished goods. The Company's inventories include the direct purchase cost of materials and supplies and manufacturing overhead costs. In connection with the acquisition of R-Tech, all inventory held by R-Tech was stepped-up in fair value to $37.6 million as of the acquisition date. As of June 30, 2016 and December 31, 2015, the remaining balance of inventory step-up was zero and $14.3 million, respectively.

Inventory consisted of the following at June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016	December 31, 2015
Raw materials	$ 323	$ 5,554
Work in process	19,563	26,926
Finished goods	1,684	641
Total	$ 21,570	$ 33,121

9. Intangible Assets

Intangible assets by major class consisted of the following as of June 30, 2016 and December 31, 2015:

	June 30, 2016		December 31, 2015	
(In thousands)	Weighted average life (in months)	Carrying amount	Weighted average life (in months)	Carrying amount
Amortized intangible assets				
Patent and license rights	66	$ 10,513	72	$ 10,513
Manufacturing know-how	71	134,600	76	134,600
Accumulated amortization		(20,710)		(8,463)
Impairment losses		(5,651)		(5,651)
Foreign currency translation adjustments		20,595		(684)
Total amortized intangible assets		$ 139,347		$ 130,315
Unamortized intangible assets				
In-process research and development		$ 7,228		$ 6,171
Goodwill		71,839		60,937
Total unamortized intangible assets		$ 79,067		$ 67,108
Total intangible assets		$ 218,414		$ 197,423

The changes in intangible assets for the six months ended June 30, 2016 are as follows:

(In thousands)	Intangibles	Goodwill	In-process research & development
Balance at December 31, 2015	$ 130,315	$ 60,937	$ 6,171
Additions	-	455	-
Amortization	(12,235)	-	-
Foreign currency translation adjustment	21,267	10,447	1,057
Balance at June 30, 2016	$ 139,347	$ 71,839	$ 7,228

10. Accrued Expenses and Other Current Liabilities

Accrued expenses consisted of the following at June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016	December 31, 2015
Research and development costs	$ 6,184	$ 3,843
Employee compensation	2,959	4,860
Restructuring	1,416	851
Legal, consulting & other professional expenses	1,946	428
Other accrued expenses	793	904
Total	$ 13,298	$ 10,886

Other current liabilities consisted of the following at June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016	December 31, 2015
Indirect taxes payable	$ 2,644	$ 5,963
Squeeze out liability for non-tendering R-Tech shareholders	266	7,668
Deferred revenue	946	676
Other liabilities	565	508
Total	$ 4,421	$ 14,815

11. Other Liabilities

Other liabilities consisted of the following at June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016	December 31, 2015
Deferred grants	$ 10,950	$ 9,604
Unrecognized tax benefits	3,602	3,061
Deferred leasehold incentive	1,660	1,715
Other liabilities	2,216	1,363
Total	$ 18,428	$ 15,743

Deferred grants primarily consisted of a $10.2 million grant from the Japan Science and Technology Agency for use in developing unoprostone-related medicine for pigmentary degeneration of the retina, a $300,000 government grant from Montgomery County, Maryland related to the move of the Company's headquarters, and a $450,000 government grant from the Maryland Department of Business and Economic Development related to the move of the Company's headquarters. All grants may have to be repaid if certain conditions are not met.

12. Commitments and Contingencies

Operating Leases

The Company leases office space in the United States, Switzerland and Japan under operating leases through 2027. Total future minimum, non-cancelable lease payments under operating leases are as follows:

(In thousands)	June 30, 2016
2016	$ 856
2017	1,004
2018	1,293
2019	1,040
2020	973
2021	3,187
Total minimum lease payments	$ 8,353

Rent expense for all operating leases was $668,000 and $322,000 for the three months ended June 30, 2016 and 2015, respectively, and $1.3 million and $655,000 for the six months ended June 30, 2016 and 2015, respectively.

Numab Commitment

The maximum contingent liability under the Numab Agreement (see note 13) in the event that Numab defaults under its loan with Zurcher Kantonalbank is $2.2 million. As of June 30, 2016 and December 31, 2015, due to the pay down of the loan with Zurcher Kantonalbank, the potential amount of payments in the event of Numab's default was $1.5 million. As of June 30 2016, the Company had a recorded liability of $204,000 in collateral callable to meet a potential loan default by Numab. As described in note 20 below, Numab repaid this loan during July 2016. As a result, the Company's liabilities associated with the Numab Agreement have been released.

13. Related Party Transactions

R-Tech Ueno, Ltd.

Before the R-Tech acquisition on October 20, 2015, R-Tech was a related party through common ownership. Prior to the R-Tech acquisition, the Company did not own manufacturing facilities. Instead, the Company contracted with R-Tech as the sole manufacturer of the Company's products to produce AMITIZA and RESCULA. The Company had entered into multiple exclusive supply arrangements with R-Tech and had granted to R-Tech the exclusive right to manufacture and supply AMITIZA and other products and compounds to the Company to meet its commercial and clinical requirements.

The Company received upfront, development and milestone payments under these agreements totaling $9.0 million through October 20, 2015. The Company recorded the following expenses under all of its agreements with R-Tech for the three and six months ended June 30, 2015:

(In thousands)	Three Months Ended June 30, 2015	Six Months Ended June 30, 2015
Clinical supplies	$ 6	$ 37
Other research and development services	84	89
Commercial supplies	7,036	13,178
	$ 7,126	$ 13,304

The Company recognized $335,000 and $473,000 of revenue relating to its agreements with R-Tech for the three and six months ended June 30, 2015, respectively, which was recorded as contract and collaboration revenue in the accompanying condensed consolidated statements of operations and comprehensive income.

Numab AG

In September 2011, the Company entered into a loan guarantee and development agreement (the Numab Agreement) with Numab AG (Numab). Under the terms of the Numab Agreement, which extends through September 2016, the Company would provide Numab with up to CHF 5.0 million as collateral and would serve as guarantor for a loan to Numab from a third party, Zurcher Kantonalbank. Following the payment of the first success fee during the first quarter of 2013, this amount was reduced to CHF 2.2 million, or approximately $2.2 million as of June 30, 2016.

As of June 30, 2016, collateral of CHF 2.2 million had been deposited by the Company and Numab has utilized CHF 1.5 million of its loan facility, or approximately $1.5 million. At June 30, 2016 and December 31, 2015, the Company has a recorded guarantee liability of $204,000 and $202,000, respectively, in collateral callable to meet a potential loan default by Numab. As described in note 20 below, Numab repaid this loan during July 2016. As a result, the Company's liabilities associated with the Numab Agreement have been released.

Subordinated Unsecured Promissory Notes

In connection with the SAG acquisition in 2010, the Company issued subordinated unsecured promissory notes (Notes) to the Ueno Trust and Kuno Trust, former shareholders of SAG. The Ueno Trust and Kuno Trust are considered related parties. Each of the Notes was issued with an initial principal balance of approximately $25.9 million, or approximately $51.9 million in the aggregate. The interest rate for the Notes was the sum of the London Interbank Offered Rate, or LIBOR, plus 4.0%, and was reset on December 1, 2015 to 4.7%. On February 1, 2016, the Notes were paid in full.

14. Credit Facility and Notes Payable

On October 16, 2015, the Company entered into a Credit Agreement (Credit Facility) with Jefferies Financing LLC. Term Loans under the Credit Facility bear interest, at the Company's option, at the Adjusted Eurodollar Rate plus 7.25% or the Adjustable Base Rate plus 6.25%. The average interest rate on the notes payable for the six months ending June 30, 2016 was 8.42%. The Company was in compliance with all covenants under the credit facility as of June 30, 2016.

The Company's debt is subject to the fair value disclosure requirements as discussed in note 2. The carrying amounts of the notes payable at June 30, 2016 and 2015 approximated fair value and are classified as a Level 2 instrument.

15. Collaboration Obligation

Due to signing of the Global Takeda Agreement, the Company received an upfront payment from Takeda of $14.0 million in 2014, of which the Company is obligated to reimburse Takeda for the first $6.0 million in developmental expenses incurred by Takeda. As of June 30, 2016 and December 31, 2015, the collaboration obligation was $3.8 million and $5.6 million, respectively.

16. Collaboration and License Agreements

North America Takeda Agreement

The following table summarizes the cash streams and related revenue recognized or deferred under the North America Takeda Agreement for the six months ended June 30, 2016:

(In thousands)	Amount Deferred at December 31, 2015	Cash Received for the Six Months Ended June 30, 2016	Revenue Recognized for the Six Months Ended June 30, 2016	Change in Receivables for the Six Months Ended June 30, 2016	Foreign Currency Effects for the Six Months Ended June 30, 2016	Amount Deferred at June 30, 2016
Product royalty revenue	$ -	$ 39,283	$ 35,235	$ (4,048)	$ -	$ -
Product sales revenue	$ -	$ 24,306	$ 23,077	$ (1,723)	$ 494	$ -
Research and development revenue:						
Reimbursement of research and development expenses	$ -	$ 5,226	$ 6,799	$ 1,573	$ -	$ -
Collaboration revenue:						
Up-front payment associated with the Company's obligation to participate in joint committees	$ 736	$ -	$ 74	$ -	$ -	$ 662

Japan Mylan Agreement

The following table summarizes the cash streams and related revenue recognized or deferred under the Japan Mylan Agreement for the six months ended June 30, 2016:

(In thousands)	Amount Deferred at December 31, 2015	Cash Received for the Six Months Ended June 30, 2016	Revenue Recognized for the Six Months Ended June 30, 2016	Change in Receivables for the Six Months Ended June 30, 2016	Foreign Currency Effects for the Six Months Ended June 30, 2016	Amount Deferred at June 30, 2016
Product sales revenue	$ -	$ 31,061	$ 29,087	$ 934	$ (2,909)	$ -
Collaboration revenue:						
Up-front payment associated with the Company's obligation to participate in joint committees	$ 416	$ -	$ 19	$ -	$ 77	$ 474

Japan Santen Agreement

The Company has recorded RESCULA product sales revenue for the three and six months ended June 30, 2016 of approximately $1.4 million and $4.8 million, respectively, under its distribution agreement with Santen Pharmaceutical Co., Ltd. for the commercialization of RESCULA in Japan.

17. Stock Option Plans

A summary of employee stock option activity for the six months ended June 30, 2016 under the Company's Amended and Restated 2001 Stock Incentive Plan is presented below:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2015	37,400	$ 10.00		
Options exercised	(20,400)	10.00		
Options expired	(17,000)	10.00		
Options outstanding, June 30, 2016	-		-	$ -
Options exercisable, June 30, 2016	-		-	$ -
Options vested and expected to vest, June 30, 2016	-		-	$ -

A summary of employee stock option activity for the six months ended June 30, 2016 under the Company's Amended and Restated 2006 Stock Incentive Plan is presented below:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2015	4,440,608	$ 9.37		
Options granted	1,266,050	13.60		
Options exercised	(276,721)	5.20		
Options forfeited	(44,529)	12.96		
Options expired	(55,225)	14.73		
Options outstanding, June 30, 2016	5,330,183	10.51	8.32	$ 10,830,265
Options exercisable, June 30, 2016	1,997,524	8.41	7.16	$ 6,698,880
Options vested and expected to vest, June 30, 2016	4,178,030	10.13	8.14	$ 9,423,089

The weighted average grant date fair value of options granted during the six months ended June 30, 2016 and the year ended December 31, 2015 was $13.60 and $15.18, respectively.

The Company's stockholders recently approved the Sucampo Pharmaceuticals, Inc. 2016 Equity Incentive Plan, or the 2016 Plan, at the annual meeting of stockholders. The 2016 Plan was approved by the Company's Compensation Committee on April 6, 2016 and by its Board on April 18, 2016, subject to approval by the stockholders. The 2016 Plan is the successor to the Company's Amended and Restated 2006 Stock Incentive Plan. Under the 2016 Plan, the Company may grant stock options, restricted stock unit awards and other awards at levels determined appropriate by its Board or Compensation Committee. The 2016 Plan also allows the Company to utilize a broad array of equity incentives and performance cash incentives in order to secure and retain the services of its employees, directors and consultants, and to provide long-term incentives that align the interests of its employees, directors and consultants with the interests of our stockholders.

A summary of employee stock option activity for the six months ended June 30, 2016 under the Company's 2016 Plan is presented below:

	Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Options outstanding, December 31, 2015	-	$ -		
Options granted	2,600	11.02		
Options outstanding, June 30, 2016	2,600	11.02	9.97	$ -
Options exercisable, June 30, 2016	-	-	-	$ -
Options vested and expected to vest, June 30, 2016	1,214	11.02	9.97	$ -

A summary of employee restricted stock units activity for the six months ended June 30, 2016 under the Company's 2016 Plan is presented below:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested Restricted Stock Units, December 31, 2015	-	$ -
Restricted Stock Units granted	49,000	12.41
Restricted Stock Units vested	-	
Restricted Stock Units forfeited	-	
Nonvested Restricted Stock Units, June 30, 2016	49,000	12.41

Employee Stock Purchase Plan

Under the Company's 2006 Employee Stock Purchase Plan, the Company received $69,919 and $26,607 upon employees' purchase of 7,502 and 1,990 shares of class A common stock during the three months ended June 30, 2016 and 2015, respectively, and $128,309 and $38,090 upon employees' purchase of 13,787 and 2,940 shares of class A common stock during the six months ended June 30, 2016 and 2015, respectively.

Accumulated Other Comprehensive Income

The following table details the accumulated other comprehensive income activity for the six months ended June 30, 2016:

(In thousands)	Foreign currency translation adjustments	Unrealized income on investments, net of tax effect	Unrealized income (loss) on pension benefit obligation	Accumulated other comprehensive income
Balance January 1, 2016	$ 14,243	$ 42	$ (873)	$ 13,412
Other comprehensive income before reclassifications	36,255	-	25	36,280
Amounts reclassified from accumulated other comprehensive loss	-	-	-	-
Balance June 30, 2016	$ 50,498	$ 42	$ (848)	$ 49,692

18. Income Taxes

The provision for income taxes is based upon the estimated annual effective tax rates for the year applied to the current period income before tax plus the tax effect of any significant unusual items, discrete events or changes in tax law. The Company's operating subsidiaries are exposed to effective tax rates ranging from zero to approximately 42%. Fluctuations in the distribution of pre-tax income among the Company's operating subsidiaries can lead to fluctuations of the effective tax rate in the condensed consolidated financial statements. In the three-month periods ended June 30, 2016 and 2015, the actual effective tax rates were 5.8% and 28.7%, respectively, and for the six-month periods ended June 30, 2016 and 2015, the actual effective tax rates were 38.7% and 29.4%, respectively.

The Company assesses uncertain tax positions in accordance with ASC 740-10 *Accounting for Uncertainties in Tax*. As of June 30, 2016, the Company's net unrecognized tax benefits totaled approximately $3.6 million. Of this balance, $2.5 million would favorably impact the Company's effective tax rate in the periods if they are recognized. Management has not identified any uncertain tax positions that are reasonably likely to be released during the next 12 months due to lapse of statutes of limitations or settlements with tax authorities.

The Company conducts business globally and, as a result, files numerous consolidated and separate income tax returns in the U.S., Switzerland and Japan, as well as in various other state and foreign jurisdictions. In the normal course of business, the Company is subject to examination by taxing authorities throughout the world. Currently tax years 2011 to 2015 remain open and subject to examination in the major tax jurisdictions in which tax returns are filed. The tax years 2009-2011 were examined by the U.S. tax authorities and resulted in no tax adjustments.

19. Investment in CPP

On January 9, 2016, the Company entered into a Securities Purchase Agreement and an Option and Collaboration Agreement with Cancer Prevention Pharmaceuticals (CPP) for the development and commercialization of CPP-1X/sulindac combination.

The Company made a $5.0 million loan to CPP in exchange for a convertible note. The convertible note bears interest at the rate of 5% per annum and matures on January 31, 2019 unless earlier converted or prepaid. The convertible note is automatically convertible into securities of CPP, subject to certain limitations, in the event CPP consummates a future financing with aggregate proceeds at least $10.0 million, exclusive of any investment by the Company, whether through a public offering or a private offering (a Qualified Financing). Depending on the timing of the Qualified Financing, the convertible note will automatically convert into the same securities issued in the Qualified Financing at a 10% to 20% discount to the lowest issuance price of the securities in the Qualified Financing.

The Company has also agreed to purchase up to $5.0 million of CPP's securities in any such Qualified Financing. CPP filed a Registration Statement on Form S-1 with the Securities and Exchange Commission in December 2015 for the sale of its common stock in an initial public offering. If completed, the initial public offering would be considered to be a Qualified Financing. The Company expects that the convertible note will convert into shares of CPP's common stock in its initial public offering at a 10% discount to the public offering price and that the Company will purchase $5.0 million of shares of CPP common stock in that offering.

Under the terms of an Option and Collaboration Agreement, CPP granted the Company the sole option to acquire an exclusive license to commercialize CPP-1X/Sulindac combination product in North America. This product is currently in a Phase 3 clinical trial for the treatment of familial adenomatous polyposis (FAP). Target enrollment in the study was achieved in April 2016 and the trial is expected to conclude in 2018. The Company will pay CPP an option fee of $7.5 million, payable in two tranches. The first tranche of $3.0 million was paid in January 2016 and was recorded as research and development expense. The second tranche of $4.5 million is due upon achievement of certain results of the ongoing feasibility study, which are expected in the third quarter of 2016. CPP will complete the ongoing Phase 3 trial under the oversight of a joint steering committee between CPP and the Company. Upon exercise of its exclusive option, the Company would negotiate an exclusive license to develop and commercialize the product in North America for all indications. In connection with the exercise of the option right, the subsequent execution of a license agreement and the development and commercialization of the product, the Company would be obligated to pay CPP up to an aggregate of $190.0 million of specified clinical development and sales milestones. Under the terms of the license, the Company and CPP would share equally in net profits from the sale of licensed products.

The Company has elected the fair value option on the convertible note received from CPP due to the nature of the financial characteristics of the investment. As of June 30, 2016, the fair value of the convertible note is $5.1 million using level 3 inputs.

CPP is considered to be a VIE with respect to the Company. It has been determined that the power to direct the activities that most significantly impact CPP's economic performance is held by the board of directors of CPP. The Company does not have a representative on CPP's board and does not have the right to appoint or elect such a representative. Therefore, the Company is not the primary beneficiary of CPP, and the entity is not consolidated with the financial statements of the Company. The company's maximum exposure to loss as a result of its involvement with CPP is $5.1 million as of June 30, 2016, which is the investment in the convertible security of $5.1million. As of March 31, 2016, CPP had total assets of $9.2 million and total liabilities of $21.5 million.

20. Subsequent Events

In July 2016, Numab AG repaid all outstanding amounts under its loan from Zurcher Kantonalbank, which was guaranteed by the Company under the Numab Agreement (see note 13). As a result, the Company's liabilities associated with the Numab Agreement guarantee have been released.

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

This Quarterly Report on Form 10-Q contains forward-looking statements regarding Sucampo Pharmaceuticals, Inc. and our business, financial condition, results of operations and prospects within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements include those that express plans, anticipation, intent, contingency, goals, targets or future development and/or otherwise are not statements of historical fact. These forward-looking statements are based on our current expectations and projections about future events and they are subject to risks and uncertainties, known and unknown, that could cause actual results and developments to differ materially from those expressed or implied in such statements. Factors that could cause or contribute to such differences include, but are not limited to, those identified below, and those discussed in the section titled "Risk Factors" included in our other filings with the Securities and Exchange Commission (SEC) including our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, which we filed with the SEC on March 11, 2016, as subsequently amended. Statements made herein are as of the date of the filing of this Form 10-Q with the SEC and should not be relied upon as of any subsequent date. Unless otherwise required by applicable law, we do not undertake, and we specifically disclaim any obligation to update any forward looking statements to reflect occurrences, developments, unanticipated events or circumstances after the date of such statement.

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our unaudited condensed consolidated financial statements and related notes that appear in Item 1 of this Form 10-Q and with our consolidated financial statements and related notes for the year ended December 31, 2015 which are included in our Annual Report on Form 10-K.

Overview

We are a global biopharmaceutical company focused on innovative research and development of proprietary drugs to treat gastrointestinal, ophthalmic, autoimmune, inflammatory, and oncology disorders.

We currently generate revenue mainly from product royalties, development milestone payments, product sales and reimbursements for clinical development activities. We expect to continue to incur significant expenses for the next several years as we continue our research and development activities, seek additional regulatory approvals and additional indications for our approved products and other compounds and seek strategic opportunities for in-licensing new products.

Our operations are conducted through subsidiaries based in the United States (U.S.), Japan and Switzerland. We operate as one segment, which focuses on the development and commercialization of pharmaceutical products.

AMITIZA (lubiprostone)

United States and Canada

AMITIZA is marketed in the U.S. for three gastrointestinal indications under a collaboration and license agreement (North America Takeda Agreement) with Takeda Pharmaceutical Company Limited (Takeda). These indications are chronic idiopathic constipation (CIC) in adults, irritable bowel syndrome with constipation (IBS-C) in adult women and opioid-induced constipation (OIC) in adults suffering from chronic non-cancer related pain. Under the North America Takeda Agreement, we are primarily responsible for clinical development activities, while Takeda is responsible for commercialization of AMITIZA in the U.S. and Canada. Takeda is required to provide a minimum annual commercial investment during the current term of the North America Takeda Agreement and may reduce the minimum annual commercial investment when a generic equivalent enters the market. In October 2015, Health Canada approved AMITIZA for CIC in adults. In October 2014, we signed an amendment (Takeda Amendment) to the North America Takeda Agreement which, among other things, extended the term of the North American Takeda Agreement beyond December 2020. During the extended term beginning in January 2021, we will share with Takeda the net sales revenue on branded AMITIZA sales. We have also partnered with Par Pharmaceuticals, Inc. (Par) in connection with the settlement of our patent litigation with Par in the U.S. related to our AMITIZA (lubiprostone) 8 mcg and 24 mcg soft gelatin capsule products. Under our agreement with Par, we granted Par a non-exclusive license to market Par's generic version of lubiprostone 8 mcg soft gelatin capsule and 24 mcg soft gelatin capsule in the U.S. for the indications approved for AMITIZA beginning January 1, 2021, or earlier under certain circumstances. Beginning on January 1, 2021, Par will split with us the gross profits of the licensed products sold during the term of the agreement, which continues until each of our related patents has expired. In the event Par elects to launch an authorized generic form of lubiprostone, we agree to supply Par with such product at a negotiated price, under the terms of a manufacturing and supply agreement.

Japan

In Japan, AMITIZA is the only prescription medicine for chronic constipation, excluding constipation caused by organic diseases, and is marketed under a license, commercialization and supply agreement (Japan Mylan Agreement) originally entered into with Abbott Laboratories, Inc. (Abbott). In February 2015, Mylan purchased Abbott's non-U.S. developed markets specialty and branded generics business, as a result of which Mylan acquired the rights to commercialize AMITIZA in Japan. We did not experience any significant changes in the commercialization of AMITIZA in Japan as a result of the transfer of the Japan Mylan Agreement from Abbott to Mylan.

People's Republic of China

In May 2015, we entered into an exclusive license, development, commercialization and supply agreement (China Gloria Agreement) with Harbin Gloria Pharmaceuticals Co., Ltd. (Gloria) for AMITIZA in the People's Republic of China. We will be the exclusive supplier of AMITIZA to Gloria at an agreed upon supply price. Under the China Gloria Agreement, Gloria is responsible for all development activities and costs, as well as commercialization and regulatory activities, for AMITIZA in the People's Republic of China. Upon entering into the China Gloria Agreement, we received an upfront payment of $1.0 million. In June 2015, the China Food and Drug Administration accepted an Investigational New Drug (IND) application for a pivotal trial of AMITIZA in patients with CIC, as a result of which we received an additional payment of $500,000 from Gloria. In addition to the $1.5 million in payments received and recognized as revenue through June 2015, we are eligible to receive an additional payment in the amount of $1.5 million upon the occurrence of a specified regulatory or commercial milestone event.

Other Global Markets

In October 2014, we entered into an exclusive license, development, commercialization and supply agreement (Global Takeda Agreement) for lubiprostone with Takeda. Under the Global Takeda Agreement, Takeda develops and markets AMITIZA globally except in the U.S., Canada, Japan and the People's Republic of China. We supply Takeda with the clinical and commercial product at a negotiated price. Takeda currently markets AMITIZA for CIC and OIC in Switzerland, and for CIC in the U.K.

In January 2016, we received notification from the Medicines and Healthcare Products Regulatory Agency of the United Kingdom (U.K.) that our appeal for the OIC indication was not approved. In January 2015, we successfully completed the European mutual recognition procedure for AMITIZA for the treatment of CIC in Austria, Belgium, Germany, Italy, Ireland, Luxembourg, Netherlands and Spain, resulting marketing authorizations in these markets. Takeda became the marketing authorization holder in Switzerland in April 2015, in the United Kingdom (U.K.), Austria, Belgium, Germany, Netherlands, Ireland and Luxembourg in early 2016, and is expected to become the marketing authorization holder in Italy and Spain in the second half of 2016.

In October 2015, Takeda obtained approval of the clinical trial application (CTA) for AMITIZA for the treatment of CIC and IBS-C in Russia that was submitted in June 2015. In December 2015, a CTA was filed for AMITIZA for the treatment of CIC, IBS-C and OIC in Mexico and South Korea. Takeda initiated phase 3 registration trials in Russia in March 2016 and in South Korea and Mexico in May 2016. A new drug application (NDA) for the treatment of CIC, IBS-C, and OIC was submitted in Israel in June 2015, and approved in July 2016 and in Kazakhstan in December 2015. Additional NDA submissions in 2016 are planned in Brazil, South Africa, Indonesia, Philippines, Malaysia, Thailand, Vietnam and the United Arab Emirates.

RESCULA (unoprostone isopropyl)

As part of the acquisition of R-Tech Ueno, Ltd. (R-Tech) in October 2015, we acquired global rights to RESCULA, an ophthalmology product used to lower intraocular pressure (IOP).

In the fourth quarter of 2014, we ceased marketing RESCULA in the United States and no product was made available after the March 2015 expiration date. In May 2015, we returned all licenses for unoprostone isopropyl to R-Tech. In June 2016, we completed the withdrawal of the marketing authorization for RESCULA in the U.S.

RESCULA was approved by Japan's Ministry of Health, Labour and Welfare in 1994 for the treatment of glaucoma and ocular hypertension. In Japan, RESCULA is no longer protected by regulatory or intellectual property exclusivity. In March 2012, R-Tech signed a distribution agreement (Japan Santen Agreement) with Santen Pharmaceutical Co., Ltd. (Santen) to commercialize RESCULA in Japan. As part of the acquisition of R-Tech in 2015, we acquired R-Tech's rights and obligations under the Japan Santen Agreement.

In South Korea, R-Tech signed a distribution agreement with Dong-A Pharm, Co., Ltd in April 2010 for the promotion and sale of RESCULA.

In Taiwan, R-Tech signed a manufacturing and supply agreement with Sinphar Pharmaceutical, Co., Ltd and also executed the distribution agreement with Zuellig Pharma, Ltd in April 2013 with respect to RESCULA.

Product Pipeline

The table below summarizes the development status of our marketed products and key product candidates. The commercialization rights to lubiprostone have been licensed to Takeda on a global basis other than Japan and the People's Republic of China, to Mylan for Japan, and to Gloria for the People's Republic of China. Commercialization of each product candidate may occur after successful completion of clinical trials and approval from competent regulatory agencies. For CPP-1X/sulindac, we have an option to acquire an exclusive license to commercialize in North America.

Country	Program Type	Target Indication	Development Phase	Next Milestone
Lubiprostone (AMITIZA ®)				
U.S.	Commercial	Chronic idiopathic constipation (CIC) adults of all ages	Marketed	____
Canada	Clinical	CIC-adults of all ages	Received approval from Health Canada	Market in Canada
U.S.	Commercial	Irritable bowel syndrome with constipation (adult women) (IBS-C)	Marketed	Initiate phase 4 study on higher dosage and with additional male subjects
U.S.	Commercial	Opioid-induced constipation (OIC) in patients with chronic non-cancer pain	Marketed	____
China	Clinical	CIC-adults of all ages	IND accepted	Initiate CIC study
Japan	Commercial	Chronic constipation	Marketed	____
Switzerland	Commercial	CIC-adults of all ages	Marketed	____
U.K.	Commercial	CIC-adults of all ages	Marketed	____
European Union	Clinical	CIC-adults of all ages	Received national marketing approvals in Ireland, Germany, Austria, Belgium, the Netherlands, Luxembourg, Italy and Spain (where product is not yet launched)	Develop pricing and reimbursement assessments and, based on outcome, determine launch feasibility and plans
Israel	Commercial	CIC-adults of all ages	Received national marketing approval	Develop pricing and reimbursement assessments and, based on outcome, determine launch feasibility and plans
Switzerland	Commercial	OIC in patients with chronic non-cancer pain	Marketed	_____
Russia	Clinical	CIC-adults of all ages	CTA Approved	Complete phase 3 trial
Russia	Clinical	IBS-C - adult women	CTA Approved	Complete phase 3 trial
Mexico	Clinical	CIC-adults of all ages	CTA Approved	Complete phase 3 trial
Mexico	Clinical	IBS-C - adult women	CTA Approved	Complete phase 3 trial
Mexico	Clinical	OIC in patients with chronic non-cancer pain	CTA Approved	Complete phase 3 trial
South Korea	Clinical	CIC-adults of all ages	CTA Approved	Complete phase 3 trial
South Korea	Clinical	IBS-C - adult women	CTA Approved	Complete phase 3 trial
South Korea	Clinical	OIC in patients with chronic non-cancer pain	CTA Approved	Complete phase 3 trial
	Clinical	Alternate (Sprinkle) formulation	In development	Initiate phase 3 trial in adults
	Clinical	Pediatric functional constipation (6 years - 17 years)	Pivotal and open label phase 3 trials ongoing	Complete pivotal and open label phase 3 trials and submit sNDA
	Clinical	Pediatric functional constipation (6 months - 6 years)	Alternate (Sprinkle) formulation in development	Initiate phase 3 program
	Clinical	Pediatric IBS-C (6 years - 17 years)	Alternate (Sprinkle) formulation in development	Initiate phase 3 program
Unoprostone isopropyl (RESCULA®)				
Japan South Korea Taiwan		Glaucoma and ocular hypertension	Marketed	_____
RTU-1096				
Japan	Clinical	Inflammation/immune-related disorder	Phase 1 completed	Initiate proof-of-mechanism study
RTU-009				
Japan	Preclinical	Inflammation/immune-related disorder	Initiate IND-enabling studies	Initiate phase 1a trial
CPP-1X/sulindac combination product				
U.S.	Option	Familial adenomatous polyposis (FAP)	Phase 3	Complete phase 3 trial

Our Clinical Development Programs

Lubiprostone

Alternate Formulation

We are developing an alternate formulation of lubiprostone for both adult and pediatric patients who are unable to take or do not tolerate capsules and for naso-gastric tube fed patients. Takeda has agreed to fund 100% of the costs, up to a cap, of this alternate formulation work and we expect to initiate a phase 3 trial of the alternate formulation of lubiprostone in adults in the second half of 2016 and, if the trial is successful, to file an NDA in the U.S. for the alternate formulation for adults in the second half of 2017.

Pediatric Functional Constipation

The phase 3 program required to support an application for marketing authorization of lubiprostone for pediatric functional constipation comprises four clinical trials, two of which are currently ongoing and are both testing the soft gelatin capsule formulation of lubiprostone in patients 6 to 17 years of age. The first of the two trials is a pivotal 12-week, randomized, placebo-controlled trial which was initiated in December 2013 and completed enrollment in April 2016. The second trial is a follow-on, long-term safety extension trial that was initiated in March 2014. We expect to receive data from these trials in the second half of 2016. Following the successful completion of the phase 3 trial for the alternate formulation of lubiprostone in adult CIC patients, as described above, we are also planning to initiate two additional trials in our phase 3 program for pediatric functional constipation, which will be in children aged 6 months to less than 6 years testing the alternate formulation described above. Takeda has agreed to fund 67% of the costs, up to a cap, of this pediatric functional constipation program.

VAP-1 Inhibitors

RTU-1096

RTU-1096 is an oral compound under development for indications in auto-immune/inflammatory and immune-oncology diseases. In the first quarter of 2016, we completed a phase 1 trial in healthy individuals that evaluated the safety and pharmacokinetics of the compound. No significant safety issues were reported during the seven-day study. There was evidence of inhibition of systemic VAP-1 at all doses tested and the trial provided evidence of proof of mechanism. We will also look to generate additional preclinical data in the emerging area of immune-oncology, to support partnership opportunities of combination therapy in cancer patients using check-point pathway inhibitors.

RTU-009

RTU-009 is a pre-clinical stage, injectable VAP-1 inhibitor that is being studied in animal models of acute cerebral infarction. VAP-1 is found to cause increases in vascular cell damage, which lead to stroke. RTU-009 may inhibit VAP-1 and control the extent of neuronal damage occurring after a stroke. We intend to complete IND-enabling studies, and thereafter initiate clinical development.

CPP- 1X/Sulindac Combination Product

In January 2016, we entered into an option and collaboration agreement under which Cancer Prevention Pharmaceuticals, Inc. (CPP) has granted us the sole option to acquire an exclusive license to commercialize CPP-1X/sulindac combination product in North America. This product is currently in a Phase 3 clinical trial, conducted by CPP for the treatment of familial adenomatous polyposis (FAP). Under our agreement with CPP, we have the exclusive option to license this product for North America. There are currently no approved treatments for FAP. The ongoing Phase 3 study is a 150-patient, three-arm, double-blind, randomized trial of the combination agent and the single agent comparators. Enrollment in the study has completed and the results from a Phase 3 futility analysis are expected to be available in the second half of 2016. The trial is expected to conclude in 2018. More information regarding our arrangement with CPP is set forth in Note 19 in the condensed consolidated financial statements included elsewhere in this Quarterly Report on Form 10-Q.

Cobiprostone

In April 2016, we announced the discontinuation of development of cobiprostone for the treatment of proton pump inhibitor (PPI)-refractory non-erosive reflux disease (NERD) or symptomatic gastroesophageal reflux disease (sGERD), based on our analysis of top-line data from a Phase 2a study. While cobiprostone demonstrated significant benefit in some of the secondary parameters of this exploratory study, the trial did not meet its primary endpoints. In July 2016, we announced the decision to discontinue the development of cobiprostone based on the results of a pre-specified futility analysis of the Phase 2a study of an oral spray formulation of cobiprostone for the prevention of oral mucositis in patients that are undergoing radio chemotherapy for head and neck cancer. The futility analysis indicated that the clinical benefit of cobiprostone was insufficient to support continuation of the study.

Results of Operations

Comparison of Three Months Ended June 30, 2016 and 2015

Revenues

The following table summarizes our revenues for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30,	
(In thousands)	**2016**	**2015**
Product royalty revenue	$ 18,735	$ 16,136
Product sales revenue - AMITIZA	27,001	14,493
Product sales revenue - RESCULA	1,388	18
Research and development revenue	3,369	2,409
Contract and collaboration revenue	1,458	1,828
Total	$ 51,951	$ 34,884

Total revenues were $52.0 million for the three months ended June 30, 2016, compared to $34.9 million for the three months ended June 30, 2015, an increase of $17.1 million or 48.9%.

Product royalty revenue

Product royalty revenue primarily represents royalty revenue earned on Takeda net sales of AMITIZA in North America and was $18.7 million for the three months ended June 30, 2016 compared to $16.1 million for the three months ended June 30, 2015, an increase of $2.6 million or 16.1%. The increase was primarily due to higher Takeda reported AMITIZA net sales which were driven by a mix of price and volume increases.

Product sales revenue

Product sales revenue represents drug product sales of AMITIZA in North America, Japan and Europe, and drug product sales of RESCULA in Japan. AMITIZA product sales revenue was $27.0 million for the three months ended June 30, 2016 compared to $14.5 million for the three months ended June 30, 2015, an increase of $12.5 million or 86.3%. The increase was primarily due to a $12.1 million increase in AMITIZA sales in North America as a result of the acquisition of R-Tech in October 2015. RESCULA product sales revenue was $1.4 million for the three months ended June 30, 2016 compared to $18,000 for the three months ended June 30, 2015. The increase was due to the acquisition of R-Tech in October 2015 and resulting sales of RESCULA under the Japan Santen Agreement.

Research and development revenue

Research and development revenue was $3.4 million for the three months ended June 30, 2016 compared to $2.4 million for the three months ended June 30, 2015, an increase of $1.0 million or 39.9%. The increase was due to increased activity on the advancement of pediatric and alternative formulation studies in the second quarter of 2016 for which we receive reimbursement from Takeda.

Contract and collaboration revenue

Contract and collaboration revenue was $1.5 million for the three months ended June 30, 2016 compared to $1.8 million for the three months ended June 30, 2015, a decrease of $370,000 or 20.2%. The decrease was primarily attributable to upfront and milestone payments of $1.5 million recognized in the second quarter of 2015 under the China Gloria Agreement partially offset by a higher release of the collaboration obligation under the Global Takeda Agreement in the second quarter of 2016.

Costs of Goods Sold

Costs of goods sold were $20.3 million for the second quarter of 2016 compared to $7.3 million for the same period in 2015, an increase of $13.1 million or 180.4%. The increase was primarily due to $6.3 million of amortization expense associated with the increase in fair value of the inventory acquired from R-Tech and acquired intangible asset amortization of $6.3 million.

Research and Development Expenses

The following table summarizes our research and development expenses for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30,	
(In thousands)	**2016**	**2015**
Direct costs:		
Lubiprostone	$ 5,726	$ 3,601
Cobiprostone	2,930	1,640
CPP-1X	(61)	-
RTU-1096	1,227	-
Other	442	317
	10,264	5,558
Indirect costs	669	1,566
Total	$ 10,933	$ 7,124

Total research and development expenses for the three months ended June 30, 2016 were $10.9 million compared to $7.1 million for the three months ended June 30, 2015, an increase of $3.8 million or 53.5%. The increase was primarily due to costs associated with the initiation of phase 2 clinical trials for cobiprostone, an increase in expenses related to the ongoing AMITIZA pediatric trials, the acquisition of R-Tech in October 2015 and the inclusion of the respective share of R-Tech's research and development costs during the post-acquisition period.

General and Administrative Expenses

The following table summarizes our general and administrative expenses for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30,	
(In thousands)	**2016**	**2015**
Salaries, benefits and related costs	$ 2,877	$ 2,710
Legal, consulting and other professional expenses	2,834	1,892
Stock-based compensation	1,284	2,114
Pharmacovigilance	443	377
Restructuring costs	1,504	-
R-Tech Opportunity costs	1,105	-
Other expenses	2,376	1,235
Total	$ 12,423	$ 8,328

General and administrative expenses were $12.4 million for the three months ended June 30, 2016, compared to $8.3 million for the three months ended June 30, 2015, an increase of $4.1 million or 49.2%. The increase was primarily due to legal costs associated with the ongoing Dr. Reddy's matter, restructuring costs and R-Tech opportunity costs in 2016.

Selling and Marketing Expenses

Selling and marketing expenses were $623,000 for the three months ended June 30, 2016, compared to $592,000 for the three months ended June 30, 2015, an increase of $31,000 or 5.2%. The increase was the result of the inclusion of R-Tech RESCULA-related commercial activities in 2016, which was partially offset by the elimination of sales and marketing activities in the U.S.

Non-Operating Income and Expense

The following table summarizes our non-operating income and expense for the three months ended June 30, 2016 and 2015:

	Three Months Ended June 30,	
(In thousands)	**2016**	**2015**
Interest income	$ 10	$ 53
Interest expense	(5,972)	(265)
Other income (expense), net	(2,539)	2,063
Total	$ (8,501)	$ 1,851

Interest income was $10,000 for the three months ended June 30, 2016, compared to $53,000 for the three months ended June 30, 2015, a decrease of $43,000 or 81.1%.

Interest expense was $6.0 million for the three months ended June 30, 2016, compared to $265,000 for the three months ended June 30, 2015, an increase of $5.7 million, due to interest payable in connection with our Credit Facility that was entered into in October 2015.

Other income (expense), net was $2.5 million of expense for the three months ended June 30, 2016, compared to $2.1 million of income for the three months ended June 30, 2015, a negative change of $4.6 million. The increase was primarily attributable to increases in unrealized and non-cash foreign exchange losses in 2016.

Income Taxes

We recorded an income tax benefit of $51,000 and expense of $3.9 million for the three months ended June 30, 2016 and 2015, respectively. The tax provision for the three months ended June 30, 2016 primarily pertains to the impact of Subpart F deemed dividend rules in the U.S. The tax provision for the three months ended June 30, 2015 primarily pertained to pre-tax profits generated by our U.S., Japanese and Swiss subsidiaries.

The effective tax rate (ETR) for the second quarter of 2016 was 5.8%, compared to 28.7% in the same period of 2015. The ETR for the quarter was based on a projection of the full year rate. The increase in the ETR was due to the shifting of profits from lower tax jurisdictions to higher tax jurisdictions and the impact of Subpart F deemed dividend rules in the U.S.

Comparison of Six Months Ended June 30, 2016 and 2015

Revenues

The following table summarizes our revenues for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
(In thousands)	**2016**	**2015**
Product royalty revenue	$ 35,451	$ 31,881
Product sales revenue - AMITIZA	50,121	25,644
Product sales revenue - RESCULA	4,863	12
Research and development revenue	6,799	4,754
Contract and collaboration revenue	1,925	2,073
Total	$ 99,159	$ 64,364

Total revenues were $99.2 million for the six months ended June 30, 2016, compared to $64.4 million for the six months ended June 30, 2015, an increase of $34.8 million or 54.1%.

Product royalty revenue

Product royalty revenue primarily represents royalty revenue earned on Takeda net sales of AMITIZA in North America and was $35.5 million for the six months ended June 30, 2016 compared to $31.9 million for the six months ended June 30, 2015, an increase of $3.6 million or 11.2%. The increase was primarily due to higher Takeda reported AMITIZA net sales which were driven by a mix of price and volume increases.

Product sales revenue

AMITIZA product sales revenue was $50.1 million for the six months ended June 30, 2016 compared to $25.6 million for the six months ended June 30, 2015, an increase of $24.5 million or 95.4%. The increase was primarily due to a $21.0 million increase in AMITIZA sales in North America as a result of the acquisition of R-Tech in October 2015. RESCULA product sales revenue was $4.9 million for the six months ended June 30, 2016 compared to $12,000 for the six months ended June 30, 2015, an increase of $4.9 million. The increase was due to the acquisition of R-Tech in October 2015 and resulting sales of RESCULA under the Japan Santen Agreement.

Research and development revenue

Research and development revenue was $6.8 million for the six months ended June 30, 2016 compared to $4.8 million for the six months ended June 30, 2015, an increase of $2.0 million or 43.0%. The increase was due to increased activity on the advancement of pediatric and alternative formulation studies for the six months ended June 30, 2016, for which we receive reimbursement from Takeda.

Contract and collaboration revenue

Contract and collaboration revenue was $1.9 million for the six months ended June 30, 2016 compared to $2.1 million for the six months ended June 30, 2015, a decrease of $148,000 or 7.1%. The decrease was primarily attributable to upfront and milestone payments of $1.5 million recognized in the six months ended June 30, 2015 under the China Gloria Agreement, partially offset by a higher release of the collaboration obligation under the Global Takeda Agreement in the six months ended June 30, 2016.

Costs of Goods Sold

Costs of goods sold were $43.7 million for the six months ended June 30, 2016 compared to $13.4 million for the same period in 2015, an increase of $30.3 million or 226.8%. The increase was primarily due to the amortization of the R-Tech inventory step up of $15.2 million and acquired intangible asset amortization of $12.2 million.

Research and Development Expenses

The following table summarizes our research and development expenses for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
(In thousands)	**2016**	**2015**
Direct costs:		
Lubiprostone	$ 11,352	$ 7,114
Cobiprostone	5,039	3,172
CPP-1X	2,928	-
RTU-1096	2,147	-
Other	1,861	748
	23,327	11,034
Indirect costs	2,277	2,883
Total	$ 25,604	$ 13,917

Total research and development expenses for the six months ended June 30, 2016 were $25.6 million compared to $13.9 million for the six months ended June 30, 2015, an increase of $11.7 million or 84.0%. The increase was primarily due to costs associated with the initiation of phase 2 clinical trials for cobiprostone, an increase in expenses related to the ongoing AMITIZA pediatric trials, costs incurred for the CPP program, and the inclusion of R-Tech's research and development costs during the post-acquisition period.

General and Administrative Expenses

The following table summarizes our general and administrative expenses for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
(In thousands)	**2016**	**2015**
Salaries, benefits and related costs	$ 5,924	$ 5,207
Legal, consulting and other professional expenses	4,990	3,558
Stock-based compensation	2,671	2,837
Pharmacovigilance	871	564
Restructuring costs	1,633	-
R-Tech Opportunity costs	1,687	-
Other expenses	3,574	2,445
Total	$ 21,350	$ 14,611

General and administrative expenses were $21.4 million for the six months ended June 30, 2016, compared to $14.6 million for the six months ended June 30, 2015, an increase of $6.7 million or 46.1%. The increase is primarily due to the inclusion of R-Tech general and administrative expenses, restructuring costs and R-Tech opportunity costs in 2016.

Selling and Marketing Expenses

Selling and marketing expenses were $1.4 million for the six months ended June 30, 2016, compared to $1.2 million for the six months ended June 30, 2015, an increase of $166,000 or 13.5%. The increase was the result of the inclusion of R-Tech RESCULA-related commercial activities in 2016, which was partially offset by the elimination of sales and marking activities in the U.S.

Non-Operating Income and Expense

The following table summarizes our non-operating income and expense for the six months ended June 30, 2016 and 2015:

	Six Months Ended June 30,	
(In thousands)	**2016**	**2015**
Interest income	$ 35	$ 93
Interest expense	(12,242)	(541)
Other income (expense), net	(2,886)	1,860
Total	$ (15,093)	$ 1,412

Interest income was $35,000 for the six months ended June 30, 2016, compared to $93,000 for the six months ended June 30, 2015, a decrease of $58,000 or 62.4%.

Interest expense was $12.2 million for the six months ended June 30, 2016, compared to $541,000 for the six months ended June 30, 2015, an increase of $11.7 million, due to interest payable in connection with our Credit Facility that was entered into in October 2015.

Other income (expense), net was $2.9 million expense for the six months ended June 30, 2016, compared to $1.9 million income for the six months ended June 30, 2015, a negative change of $4.7 million. The increase was primarily attributable to increases in unrealized and non-cash foreign exchange losses in 2016.

Income Taxes

We recorded an income tax benefit of $3.1 million and income tax expense of $6.7 million for the six months ended June 30, 2016 and 2015, respectively. The tax provision for the six months ended June 30, 2016 primarily pertains to the impact of Subpart F deemed dividend rules in the U.S. The tax provision for the six months ended June 30, 2015 primarily pertained to pre-tax profits generated by our U.S., Japanese and Swiss subsidiaries.

The effective tax rate (ETR) for the six months ended June 30, 2016 was 38.7%, compared to 29.4% in the same period of 2015. The ETR for the quarter was based on a projection of the full year rate. The increase in the ETR was due to the shifting of profits from lower tax jurisdictions to higher tax jurisdictions and the impact of Subpart F deemed dividend rules in the U.S.

Reportable Operating Segments

We have one operating segment which is the development and commercialization of pharmaceutical products.

Liquidity and Capital Resources

Sources of Liquidity

We finance our operations principally from cash generated from operations and our Credit Facility. From time to time, we have also received proceeds from the issuance and sale of our class A common stock and through the exercise of employee stock options. Cash generated from operations is principally derived from product sales, royalty payments, upfront and milestone payments, and research and development expense reimbursements received from Takeda, Mylan and other parties.

Our cash, cash equivalents and restricted cash consist of the following as of June 30, 2016 and December 31, 2015:

(In thousands)	June 30, 2016	December 31, 2015
Cash and cash equivalents	$ 127,981	$ 108,284
Restricted cash, current	26,916	55,218
Total	$ 154,897	$ 163,502

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

As of June 30, 2016, our restricted cash consisted primarily of $25.0 million held in a restricted cash account, which is required by the Credit Facility, until at least $35 million of the Term Loans have been repaid or prepaid. As of December 31, 2015, our restricted cash consisted primarily of this $25.0 million related to the Credit Facility, and as part of the R-Tech acquisition, $17.7 million held in a restricted cash account for payment of the Ueno and Kuno Trust Notes, and $8.2 million held in restricted cash related to the squeeze out of non-tendering R-Tech shareholders. As of June 30, 2016, the Ueno and Kuno Trust Notes had been repaid and the R-Tech acquisition was completed.

Cash Flows

The following table summarizes our cash flows for the six months ended June 30, 2016 and 2015:

(In thousands)	Six Months Ended June 30, 2016	2015
Cash provided by (used in):		
Operating activities	$ 25,830	$ 15,084
Investing activities	(2,893)	(16,003)
Financing activities	(10,180)	700
Effect of exchange rates	6,940	(60)
Net increase (decrease) in cash and cash equivalents	$ 19,697	$ (279)

Six months ended June 30, 2016

Net cash provided by operating activities was $25.8 million for the six months ended June 30, 2016. This was primarily due to adjustments to reconcile net loss to net cash consisting of depreciation and amortization of $30.1 million, unrealized currency translation losses of $9.1 million, deferred tax provision increase of $5.0 million, and stock-based compensation expense of $3.7 million. Additional cash provided by operating activities consisted of decreases in receivables of $9.9 million and changes in other assets and liabilities, net of $1.3 million. Partially offsetting these items were increases in prepaid and income taxes payable and receivable, net of $18.2 million, decreases in payables of $11.1 million and a net loss of $4.9 million.

Net cash used in investing activities was $2.9 million for the six months ended June 30, 2016. This was primarily due to the payment of the squeeze-out liability for non-tendering R-Tech shareholders of $7.7 million and investment in a convertible note receivable of $5.0 million, partially offset by a decrease in restricted cash of $10.6 million.

Net cash used in financing activities was $10.2 million for the six months ended June 30, 2016. This was primarily due to repayments of notes payable (net of restricted cash) of $12.4 million, partially offset by the issuance of Class A common stock upon the exercise of options and the associated windfall benefit together totaling $2.1 million.

The effect of exchange rates on the cash balances of currencies held in foreign denominations for the six months ended June 30, 2016 was an increase of $6.9 million.

Six Months Ended June 30, 2015

Net cash provided by operating activities of $15.1 million for the six months ended June 30, 2015 was primarily due to a net income of $16.0 million plus non-cash stock-based compensation expense of $3.9 million, offset in part by a $2.0 million gain from the transfer and assignment of licensing rights to R-Tech and an increase in deferred tax provision of $1.7 million.

Net cash used in investing activities of $16.0 million for the six months ended June 30, 2015 was primarily due to investment purchases of $39.8 million, offset in part by sales and maturities of investments totaling $21.8 million and proceeds of $2.0 million from the transfer and assignment of licensing rights to R-Tech

Net cash provided by financing activities of $700,000 for the six months ended June 30, 2015 was primarily due to proceeds from exercised stock options totaling $3.7 million, plus a windfall benefit from stock-based compensation of $1.0 million, offset in part by repayment of notes payable totaling $4.1 million.

The effect of exchange rates on the cash balances of currencies held in foreign denominations for the six months ended June 30, 2015 was a decrease of $60,000.

Off-Balance Sheet Arrangements

As of June 30, 2016, we did not have any off-balance sheet arrangements, as such term is defined in Item 303(a)(4) of Regulation S-K under the Securities Act of 1933, as amended.

Funding Requirements and Capital Resources

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

- our share of the on-going development program of AMITIZA;
- research, development, manufacturing, regulatory and marketing efforts for our other products and product candidates;
- 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;
- activities to resolve our on-going legal matters;
- any option and milestone payments under general option and licensing ventures, including our exclusive option and collaboration agreement with CPP;
- other business development activities, including partnerships, alliances and investments in or acquisitions of other businesses, products and technologies;
- the expansion of our commercialization activities including the purchase of inventory; and
- the payment of principal and interest under our loan obligations.

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

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

To the extent that our capital resources may be insufficient to meet our future capital requirements, we may need to finance our future cash needs through at-the-market sales, public or private equity offerings, further debt financings or corporate collaboration and licensing arrangements.

At June 30, 2016, based upon our current business plan, we believe our future cash flows from operating activities and our existing capital resources will be sufficient to meet our cash requirements for the next 12 months.

Effects of Foreign Currency

We currently receive a portion of our revenue, incur a portion of our operating expenses, and have assets and liabilities in currencies other than the U.S. Dollar, the reporting currency for our consolidated financial statements. As such, the results of our operations could be adversely affected by changes in exchange rates either due to transaction losses, which are recognized in the statement of operations, or translation losses, which are recognized in comprehensive income. We currently do not hedge foreign exchange rate exposure via derivative instruments.

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

Our market risks during the three months ended June 30, 2016 have not materially changed from those discussed in Part II, Item 7A of our Annual Report on Form 10-K for the year ended December 31, 2015, which was filed with the SEC on March 11, 2016, as amended.

Foreign Currency Exchange Rate Risk

We are subject to foreign exchange risk for revenues and expenses denominated in foreign currencies. Foreign currency risk arises from the fluctuation of foreign exchange rates and the degree of volatility of these rates relative to the U.S. Dollar. We do not currently hedge our foreign currency transactions via derivative instruments.

Interest Rate Risk

Our exposure to market risks associated with changes in interest rates relates to both (i) the amount of interest income earned on our investment portfolio, and (ii) the amount of interest payable by us under the Credit Facility. These risks offset each other somewhat; for example, rising interest rates would increase both the amounts earned on our investments and amounts due under the Term Loans.

With respect to our investments, our goal is to ensure the safety and preservation of invested funds by limiting default risk, market risk and reinvestment risk. We attempt to mitigate default risk by investing in investment grade securities. A hypothetical one percentage point decline in interest rates would not have materially affected the fair value of our interest-sensitive financial instruments as of June 30, 2016.

Our notes payable bear interest at a variable rate calculated by reference to the Federal Funds rate or LIBOR, at our option. A hypothetical one percentage point increase in interest rates would have increased our interest payments for the three and six months ended June 30, 2016 by approximately $606,000 and $1.2 million, respectively.

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

Credit Risk

Our exposure to credit risk generally consists of cash and cash equivalents, restricted cash, investments and receivables. We place our cash, cash equivalents and restricted cash with what we believe to be highly rated financial institutions and invest the excess cash in highly rated investments. Our investment policy limits investments to certain types of debt and money market instruments issued by institutions primarily with investment grade credit ratings and places restrictions on maturities and concentrations by asset class and issuer.

Our exposure to credit risk also extends to strategic investments made as part of our ongoing business development activities, such as the investment of $5.0 million in CPP in exchange for a convertible note made in January 2016. A more detailed discussion of this arrangement is set forth in note 19 in the Notes to Condensed Consolidated Financial Statements included elsewhere in this Quarterly Report on Form 10-Q.

As of June 30, 2016 and December 31, 2015, approximately 1.2% and 3.6%, respectively, of our cash, cash equivalents, restricted cash and investments are issued or insured by the federal government or government agencies. We have not experienced any losses on these accounts related to amounts in excess of insured limits.

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

a) Evaluation of Disclosure Controls and Procedures

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act), as of June 30, 2016. In designing and evaluating such controls, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based upon the evaluation we carried out, our Chief Executive Officer and Chief Financial Officer have concluded that, as of June 30, 2016, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act, is recorded, processed, summarized and reported within the time periods specified under the applicable rules and forms of the SEC, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

b) Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended June 30, 2016 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Part II — OTHER INFORMATION

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

On October 3, 2014, we received a Paragraph IV certification notice letter regarding an abbreviated new drug application (ANDA) submitted to the U.S. Food and Drug Administration (the FDA) by Dr. Reddy's Laboratories, Ltd. and Dr. Reddy's Laboratories, Inc (collectively, Dr. Reddy's), requesting approval to market, sell, and use a generic version of the 8 mcg and 24 mcg AMITIZA (lubiprostone) soft gelatin capsule products. In its notice letter, Dr. Reddy's alleges that U.S. Patent Nos. 6,414,016; 6,583,174; 7,064,148; 7,417,067; 8,026,393; 8,071,613; 8,088,934; 8,097,649; 8,114,890; 8,338,639; 8,748,481; 8,779,187; 7,795,312; 8,097,653; and 8,389,542, which cover compositions, formulations and methods of using AMITIZA, are invalid, unenforceable and/or will not be infringed by Dr. Reddy's manufacture, use or sale of the product described in its ANDA. The latest of such patents expires in 2027. On November 12, 2014, we, Takeda, and certain affiliates of Takeda filed a patent infringement lawsuit in the U.S. District Court for the District of New Jersey against Dr. Reddy's related to the ANDA previously filed by Dr. Reddy's and described above. The lawsuit claims infringement of 7 patents that are listed in the FDA's Approved Drug Products with Therapeutic Equivalence Evaluations (the Orange Book), with the latest expiring in 2027. Under the Drug Price Competition and Patent Term Restoration Act of 1984, known as the Hatch-Waxman Act, as a result of the patent infringement lawsuit, final FDA approval of Dr. Reddy's ANDA will be stayed up to 30 months from the date of receipt of the notice letter. As of the date of this filing, the lawsuit remains ongoing.

On May 27, 2015, R-Tech received a Paragraph IV certification notice letter regarding an ANDA submitted to the FDA by Apotex, Inc. requesting approval to market, sell, and use a generic version of the RESCULA (unoprostone isopropyl ophthalmic solution) 0.15% product approved for the lowering of intraocular pressure in patients with open-angle glaucoma or ocular hypertension. In its notice letter, Par Pharmaceutical alleges that U.S. Patent Nos. 6,458,836 and 6,770,675, which cover compositions, formulations and methods of using RESCULA, are invalid and/or will not be infringed by Apotex's manufacture, use or sale of the product described in its ANDA. The latest of such patents expires in 2020. On July 10, 2015, R-Tech filed a patent infringement lawsuit in the U.S. District Court for the District of Delaware against Apotex related to the ANDA previously filed by Apotex and described above. The lawsuit claims infringement of two patents that are listed in the FDA's Orange Book, with the latest expiring in 2020. Under the Hatch-Waxman Act, as a result of the patent infringement lawsuit, final FDA approval of Apotex's ANDA will be stayed up to 30 months from the date of receipt of the notice letter. On September 10, 2015, Apotex filed an answer and counterclaim to our complaint. In May 2016, the parties negotiated a settlement of the litigation, which was subsequently dismissed by mutual consent. The settlement agreement grants Apotex a license to market its generic unoprostone product after a specified future date.

On December 28, 2015, in connection with our acquisition of R-Tech, three non-tendering stockholders of R-Tech submitted complaints to the Tokyo District Court alleging that the purchase price of R-Tech's shares was unfair, and demanding an appraisal of the fair value of the shares. The number of shares subject to these proceedings is minimal. As of the date of this filing, these proceedings remain ongoing.

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

Our business is subject to certain risks and events that, if they occur, could adversely affect our financial condition and results of operations and the trading price of our common stock. For a discussion of these risks, please refer to the "Risk Factors" section of our Annual Report on Form 10-K for the fiscal year ended December 31, 2015, filed by us with the SEC on March 11, 2016, as amended. There have not been any material changes from the risk factors as previously disclosed in our Form 10-K for the fiscal year ended December 31, 2015.

Item 6. ***Exhibits***

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation	8-K	001-33609	3.1	12/29/2008
3.2	Certificate of Amendment	8-K	001-33609	3.2	12/29/2008
3.3	Amended and Restated Bylaws	8-K	001-33609	3.3	8/2/2013
4.1	Specimen Stock Certificate evidencing the shares of class A common stock	S-1/A	333-135133	4.1	2/1/2007
10.1 ^	2016 Equity Incentive Plan	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			
101.[SCH]	XBRL Taxonomy Extension Schema Document	Included herewith			
101.[CAL]	XBRL Taxonomy Extension Calculation Linkbase Document	Included herewith			
101.[LAB]	XBRL Taxonomy Extension Label Linkbase Document	Included herewith			
101.[PRE]	XBRL Taxonomy Extension Presentation Linkbase Document	Included herewith			

^ Compensatory plan, contract or arrangement.

** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

The exhibits filed as part of this Form 10-Q are set forth on the Exhibit Index immediately preceding such exhibits, and are incorporated herein by reference.

SIGNATURES

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

Sucampo Pharmaceuticals, Inc.

August 3, 2016

By: /s/ PETER GREENLEAF
Peter Greenleaf
Chief Executive Officer
(Principal Executive Officer)

August 3, 2016

By: /s/ ANDREW P. SMITH
Andrew P. Smith
Chief Financial Officer
(Principal Financial Officer)

Sucampo Pharmaceuticals, Inc.
Exhibit Index

Exhibit Number	Description	Form	File No.	Exhibit	Filing Date
3.1	Certificate of Incorporation	8-K	001-33609	3.1	12/29/2008
3.2	Certificate of Amendment	8-K	001-33609	3.2	12/29/2008
3.3	Amended and Restated Bylaws	8-K	001-33609	3.3	8/2/2013
4.1	Specimen Stock Certificate evidencing the shares of class A common stock	S-1/A	333-135133	4.1	2/1/2007
10.1 ^	2016 Equity Incentive Plan	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			
101.[SCH]	XBRL Taxonomy Extension Schema Document	Included herewith			
101.[CAL]	XBRL Taxonomy Extension Calculation Linkbase Document	Included herewith			
101.[LAB]	XBRL Taxonomy Extension Label Linkbase Document	Included herewith			
101.[PRE]	XBRL Taxonomy Extension Presentation Linkbase Document	Included herewith			

^ Compensatory plan, contract or arrangement.
** These certifications are being furnished solely to accompany this quarterly report pursuant to 18 U.S.C. Section 1350, and are not being filed for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, and are not to be incorporated by reference into any filing of the registrant, whether made before or after the date hereof, regardless of any general incorporation language in such filing.

SUCAMPO PHARMACEUTICALS, INC.

2016 EQUITY INCENTIVE PLAN

ADOPTED BY THE BOARD OF DIRECTORS: APRIL 18, 2016
APPROVED BY THE STOCKHOLDERS: JUNE 2, 2016
TERMINATION DATE: APRIL 18, 2026

1. GENERAL.

(a) Successor to and Continuation of Prior Plan. The Plan is intended as the successor to and continuation of the Sucampo Pharmaceuticals, Inc. 2006 Stock Incentive Plan, as amended (the "***Prior Plan***"). Following the Effective Date, no additional stock awards shall be granted under the Prior Plan. All Awards granted on or after the Effective Date will be granted under this Plan. All stock awards granted under the Prior Plan will remain subject to the terms of the Prior Plan.

(i) Any shares that would otherwise remain available for future grants under the Prior Plan on the Effective Date (the "***Prior Plan's Available Reserve***") will cease to be available under the Prior Plan at such time. Instead, that number of shares of Common Stock equal to the Prior Plan's Available Reserve will be added to the Share Reserve (as further described in Section 3(a) below) and will be immediately available for grants and issuance pursuant to Stock Awards hereunder, up to the maximum number set forth in Section 3(a) below.

(ii) In addition, from and after the Effective Date, any shares subject, at such time, to outstanding stock awards granted under the Prior Plan that (i) expire or terminate for any reason prior to exercise or settlement; (ii) are not issued because such stock award or any portion thereof is settled in cash or (iii) are forfeited because of the failure to meet a contingency or condition required to vest such shares or otherwise return to the Company (such shares the "***Returning Shares***") will immediately be added to the Share Reserve (as further described in Section 3(a) below) as and when such shares become Returning Shares, up to the maximum number set forth in Section 3(a) below.

(b) Eligible Award Recipients. Employees, Directors and Consultants are eligible to receive Awards.

(c) Available Awards. The Plan provides for the grant of the following Awards: (i) Incentive Stock Options, (ii) Nonstatutory Stock Options, (iii) Stock Appreciation Rights, (iv) Restricted Stock Awards, (v) Restricted Stock Unit Awards, (vi) Performance Stock Awards, (vii) Performance Cash Awards, and (viii) Other Stock Awards.

(d) Purpose. The Plan, through the grant of Awards, is intended to help the Company secure and retain the services of eligible award recipients, provide incentives for such persons to exert maximum efforts for the success of the Company and any Affiliate, and provide a means by which the eligible recipients may benefit from increases in value of the Common Stock.

2. ADMINISTRATION.

(a) Administration by Board. The Board will administer the Plan. The Board may delegate administration of the Plan to a Committee or Committees, as provided in Section 2(c).

(b) Powers of Board. The Board will have the power, subject to, and within the limitations of, the express provisions of the Plan:

(i) To determine: (A) who will be granted Awards; (B) when and how each Award will be granted; (C) what type of Award will be granted; (D) the provisions of each Award (which need not be identical), including when a person will be permitted to exercise or otherwise receive cash or Common Stock under the Award; (E) the number of shares of Common Stock subject to, or the cash value of, an Award; and (F) the Fair Market Value applicable to a Stock Award.

(ii) To construe and interpret the Plan and Awards granted under it, and to establish, amend and revoke rules and regulations for administration of the Plan and Awards. The Board, in the exercise of these powers, may correct any defect, omission or inconsistency in the Plan or in any Award Agreement or in the written terms of a Performance Cash Award, in a manner and to the extent it will deem necessary or expedient to make the Plan or Award fully effective.

(iii) To settle all controversies regarding the Plan and Awards granted under it.

(iv) To accelerate, in whole or in part, the time at which an Award may be exercised or vest (or the time at which cash or shares of Common Stock may be issued in settlement thereof).

(v) To suspend or terminate the Plan at any time. Except as otherwise provided in the Plan or an Award Agreement, suspension or termination of the Plan will not materially impair a
Participant's rights under the Participant's then-outstanding Award without the Participant's written consent, except as provided in subsection (viii) below.

(vi) To amend the Plan in any respect the Board deems necessary or advisable, including, without limitation, by adopting amendments relating to Incentive Stock Options and certain nonqualified deferred compensation under Section 409A of the Code and/or bringing the Plan or Awards granted under the Plan into compliance with the requirements for Incentive Stock Options or ensuring that they are exempt from, or compliant with, the requirements for nonqualified deferred compensation under Section 409A of the Code, subject to the limitations, if any, of applicable law. If required by applicable law or listing requirements, and except as provided in Section 9(a) relating to Capitalization Adjustments, the Company will seek stockholder approval of any amendment of the Plan that (A) materially increases the number of shares of Common Stock available for issuance under the Plan, (B) materially expands the class of individuals eligible to receive Awards under the Plan, (C) materially increases the benefits accruing to Participants under the Plan, (D) materially reduces the price at which shares of Common Stock may be issued or purchased under the Plan, (E) materially extends the term of the Plan, or (F) materially expands the types of Awards available for issuance under the Plan. Except as otherwise provided in the Plan or an Award Agreement, no amendment of the Plan will materially impair a Participant's rights under an outstanding Award without the Participant's written consent.

(vii) To submit any amendment to the Plan for stockholder approval, including, but not limited to, amendments to the Plan intended to satisfy the requirements of (A) Section 162(m) of the Code regarding the exclusion of performance-based compensation from the limit on corporate deductibility of compensation paid to Covered Employees, (B) Section 422 of the Code regarding "incentive stock options" or (C) Rule 16b-3.

(viii) To approve forms of Award Agreements for use under the Plan and to amend the terms of any one or more Awards, including, but not limited to, amendments to provide terms more favorable to the Participant than previously provided in the Award Agreement, subject to any specified limits in the Plan that are not subject to Board discretion; *provided*, *however*, that a Participant's rights under any Award will not be impaired by any such amendment unless (A) the Company requests the consent of the affected Participant, and (B) such Participant consents in writing. Notwithstanding the foregoing, (1) a Participant's rights will not be deemed to have been impaired by any such amendment if the Board, in its sole discretion, determines that the amendment, taken as a whole, does not materially impair the Participant's rights, and (2) subject to the limitations of applicable law, if any, the Board may amend the terms of any one or more Awards without the affected Participant's consent (A) to maintain the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (B) to change the terms of an Incentive Stock Option, if such change results in impairment of the Award solely because it impairs the qualified status of the Award as an Incentive Stock Option under Section 422 of the Code; (C) to clarify the manner of exemption from, or to bring the Award into compliance with, Section 409A of the Code; or (D) to comply with other applicable laws or listing requirements.

(ix) Generally, to exercise such powers and to perform such acts as the Board deems necessary or expedient to promote the best interests of the Company and that are not in conflict with the provisions of the Plan or Awards.

(x) To adopt such procedures and sub-plans as are necessary or appropriate to permit participation in the Plan by Employees, Directors or Consultants who are foreign nationals or employed outside the United States (provided that Board approval will not be necessary for immaterial modifications to the Plan or any Award Agreement that are required for compliance with the laws of the relevant foreign jurisdiction).

(c) Delegation to Committee.

(i) General. The Board may delegate some or all of the administration of the Plan to a Committee or Committees. If administration of the Plan is delegated to a Committee, the Committee will have, in connection with the administration of the Plan, the powers theretofore possessed by the Board that have been delegated to the Committee, including the power to delegate to a subcommittee of the Committee any of the administrative powers the Committee is authorized to exercise (and references in this Plan to the Board will thereafter be to the Committee or subcommittee, as applicable). Any delegation of administrative powers will be reflected in resolutions, not inconsistent with the provisions of the Plan, adopted from time to time by the Board or Committee (as applicable). The Board may retain the authority to concurrently administer the Plan with the Committee and may, at any time, revest in the Board some or all of the powers previously delegated.

(ii) Section 162(m) and Rule 16b-3 Compliance. The Committee may consist solely of two or more Outside Directors, in accordance with Section 162(m) of the Code, or solely of two or more Non-Employee Directors, in accordance with Rule 16b-3.

(d) Delegation to an Officer. The Board may delegate to one (1) or more Officers the authority to do one or both of the following (i) designate Employees who are not Officers to be recipients of Options and SARs (and, to the extent permitted by applicable law, other Stock Awards) and, to the extent permitted by applicable law, the terms of such Awards, and (ii) determine the number of shares of Common Stock to be subject to such Stock Awards granted to such Employees; *provided*, *however*, that the Board resolutions regarding such delegation will specify the total number of shares of Common Stock that may be subject to the Stock Awards granted by such Officer and that such Officer may not grant a Stock Award to himself or herself. Any such Stock Awards will be granted on the form of Stock Award Agreement most recently approved for use by the Committee or the Board, unless otherwise provided in the resolutions approving the delegation authority. The Board may not delegate authority to an Officer who is acting solely in the capacity of an Officer (and not also as a Director) to determine the Fair Market Value pursuant to Section 13(y)(iii) below.

(e) Effect of Board's Decision. All determinations, interpretations and constructions made by the Board in good faith will not be subject to review by any person and will be final, binding and conclusive on all persons.

(f) Cancellation and Re-Grant of Stock Awards. Neither the Board nor any Committee will have the authority to (i) reduce the exercise or strike price of any outstanding Option or SAR under the Plan or (ii) cancel any outstanding Option or SAR that has an exercise or strike price greater than the then-current Fair Market Value of the Common Stock in exchange for cash or other Stock Awards under the Plan, unless the stockholders of the Company have approved such an action within twelve (12) months prior to such an event.

3. SHARES SUBJECT TO THE PLAN.

(a) Share Reserve.

(i) Subject to Section 3(a)(iii) and Section 9(a) relating to Capitalization Adjustments, the aggregate number of shares of Common Stock that may be issued pursuant to Stock Awards will not exceed 10,740,125 shares (the "***Share Reserve***"), which number is the sum of (i) 2,050,000 new shares, *plus* (ii) the number of shares subject to the Prior Plan's Available Reserve (which is a total of 3,174,319 shares), *plus* (iii) the number of shares that are Returning Shares (which is a maximum amount of 5,515,806 shares), as such shares become available from time to time.

(ii) Subject to Section 3(b), the number of shares of Common Stock available for issuance under the Plan will be reduced by: (A) one (1) share for each share of Common Stock issued pursuant to an Appreciation Award granted under the Plan; and (B) one and forty-four hundredths (1.44) shares for each share of Common Stock issued pursuant to a Full Value Award granted under the Plan. The number of shares of Common Stock available for issuance under the Plan after the application of this Section 3(a)(ii) will be rounded up to the nearest whole share of Common Stock.

(iii) Subject to Section 3(b), the number of shares of Common Stock available for issuance under the Plan will be increased by: (A) one (1) share for each Prior Plans' Returning Share or 2016 Plan Returning Share (as defined in Section 3(b)(i)) subject to an Appreciation Award; and (B) one and forty-four hundredths (1.44) shares for each Prior Plans' Returning Share or 2016 Plan Returning Share subject to a Full Value Award. The number of shares of Common Stock available for issuance under the Plan after the application of this Section 3(a)(iii) will be rounded down to the nearest whole share of Common Stock.

(iv) For clarity, the Share Reserve in this Section 3(a) is a limitation on the number of shares of Common Stock that may be issued pursuant to the Plan. Accordingly, this Section 3(a) does not limit the granting of Stock Awards except as provided in Section 7(a). Shares may be issued in connection with a merger or acquisition as permitted by NASDAQ Listing Rule 5635(c) or, if applicable, NYSE Listed Company Manual Section 303A.08, AMEX Company Guide Section 711 or other applicable rule, and such issuance will not reduce the number of shares available for issuance under the Plan.

(b) Reversion of Shares to the Share Reserve.

(i) Shares Available for Subsequent Issuance. The following shares of Common Stock (collectively, the "***2016 Plan Returning Shares***") will become available again for issuance under the Plan: (A) any shares subject to a Stock Award that are not issued because such Stock Award or any portion thereof expires or otherwise terminates without all of the shares covered by such Stock Award having been issued; (B) any shares subject to a Stock Award that are not issued because such Stock Award or any portion thereof is settled in cash; and (C) any shares issued pursuant to a Stock Award that are forfeited back to or repurchased by the Company because of the failure to meet a contingency or condition required for the vesting of such shares.

(ii) Shares Not Available for Subsequent Issuance. The following shares of Common Stock will not become available again for issuance under the Plan: (A) any shares that are reacquired or withheld (or not issued) by the Company to satisfy the exercise or purchase price of a Stock Award granted under the Plan (including any shares subject to such award that are not delivered because such award is exercised through a reduction of shares subject to such award (*i.e.*, "net exercised")); and (B) any shares that are reacquired or withheld (or not issued) by the Company to satisfy a tax withholding obligation in connection with a Stock Award granted under the Plan.

(c) Incentive Stock Option Limit. Subject to the provisions of Section 9(a) relating to Capitalization Adjustments, the aggregate maximum number of shares of Common Stock that may be issued pursuant to the exercise of Incentive Stock Options will be 10,740,125 shares of Common Stock.

(d) Section 162(m) Limitations. Subject to the provisions of Section 9(a) relating to Capitalization Adjustments, at such time as the Company may be subject to the applicable provisions of Section 162(m) of the Code, the following limitations shall apply.

(i) A maximum of 1,000,000 shares of Common Stock subject to Options, SARs and Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least 100% of the Fair Market Value on the date the Stock Award is granted may be granted to any one Participant during any one calendar year. Notwithstanding the foregoing, if any additional Options, SARs or Other Stock Awards whose value is determined by reference to an increase over an exercise or strike price of at least 100% of the Fair Market Value on the date the Stock Award are granted to any Participant during any calendar year, compensation attributable to the exercise of such additional Stock Awards will not satisfy the requirements to be considered "qualified performance-based compensation" under Section 162(m) of the Code unless such additional Stock Award is approved by the Company's stockholders.

(ii) A maximum of 500,000 shares of Common Stock subject to Performance Stock Awards may be granted to any one Participant during any one calendar year (whether the grant, vesting or exercise is contingent upon the attainment during the Performance Period of the Performance Goals).

(iii) A maximum of $1,500,000 may be granted as a Performance Cash Award to any one Participant during any one calendar year.

(e) Limitation on Grants to Non-Employee Directors. The maximum number of shares of Common Stock subject to Stock Awards granted under the Plan or otherwise during any one calendar year to any Non-Employee Director, taken together with any cash fees paid by the Company to such Non-Employee Director during such calendar year for service on the Board, will not exceed $1,500,000 in total value (calculating the value of any such Stock Awards based on the grant date fair value of such Stock Awards for financial reporting purposes), or, with respect to the calendar year in which a Non-Employee Director is first appointed or elected to the Board, $2,000,000. The Board may make exceptions to the applicable limit in this Section 3(e) for individual Non-Employee Directors in extraordinary circumstances (for example, to compensate such individual for interim service in the capacity of an officer of the Company), as the Board may determine in its discretion, provided that the Non-Employee Director receiving such additional compensation may not participate in the decision to award such compensation.

(f) Source of Shares. The stock issuable under the Plan will be shares of authorized but unissued or reacquired Common Stock, including shares repurchased by the Company on the open market or otherwise.

4. ELIGIBILITY.

(a) Eligibility for Specific Stock Awards. Incentive Stock Options may be granted only to employees of the Company or a "parent corporation" or "subsidiary corporation" thereof (as such terms are defined in Sections 424(e) and 424(f) of the Code). Stock Awards other than Incentive Stock Options may be granted to Employees, Directors and Consultants; *provided*, *however*, that Stock Awards may not be granted to Employees, Directors and Consultants who are providing Continuous Service only to any "parent" of the Company, as such term is defined in Rule 405 of the Securities Act, unless (i) the stock underlying such Stock Awards is treated as "service recipient stock" under Section 409A of the Code (for example, because the Stock Awards are granted pursuant to a corporate transaction such as a spin off transaction), (ii) the Company, in consultation with its legal counsel, has determined that such Stock Awards are otherwise exempt from Section 409A of the Code, or (iii) the Company, in consultation with its legal counsel, has determined that such Stock Awards comply with the distribution requirements of Section 409A of the Code.

(b) Ten Percent Stockholders. A Ten Percent Stockholder will not be granted an Incentive Stock Option unless the exercise price of such Option is at least 110% of the Fair Market Value on the date of grant and the Option is not exercisable after the expiration of five years from the date of grant.

5. PROVISIONS RELATING TO OPTIONS AND STOCK APPRECIATION RIGHTS.

Each Option or SAR will be in such form and will contain such terms and conditions as the Board deems appropriate. All Options will be separately designated Incentive Stock Options or Nonstatutory Stock Options at the time of grant, and, if certificates are issued, a separate certificate or certificates will be issued for shares of Common Stock purchased on exercise of each type of Option. If an Option is not specifically designated as an Incentive Stock Option, or if an Option is designated as an Incentive Stock Option but some portion or all of the Option fails to qualify as an Incentive Stock Option under the applicable rules, then the Option (or portion thereof) will be a Nonstatutory Stock Option. The provisions of separate Options or SARs need not be identical; *provided, however*, that each Award Agreement will conform to (through incorporation of provisions hereof by reference in the applicable Award Agreement or otherwise) the substance of each of the following provisions:

(a) Term. Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, no Option or SAR will be exercisable after the expiration of ten years from the date of its grant or such shorter period specified in the Award Agreement.

(b) Exercise Price. Subject to the provisions of Section 4(b) regarding Ten Percent Stockholders, the exercise or strike price of each Option or SAR will be not less than 100% of the Fair Market Value of the Common Stock subject to the Option or SAR on the date the Award is granted. Notwithstanding the foregoing, an Option or SAR may be granted with an exercise or strike price lower than 100% of the Fair Market Value of the Common Stock subject to the Award if such Award is granted pursuant to an assumption of or substitution for another option or stock appreciation right pursuant to a Corporate Transaction and in a manner consistent with the provisions of Section 409A of the Code and, if applicable, Section 424(a) of the Code. Each SAR will be denominated in shares of Common Stock equivalents.

(c) Purchase Price for Options. The purchase price of Common Stock acquired pursuant to the exercise of an Option may be paid, to the extent permitted by applicable law and as determined by the Board in its sole discretion, by any combination of the methods of payment set forth below. The Board will have the authority to grant Options that do not permit all of the following methods of payment (or otherwise restrict the ability to use certain methods) and to grant Options that require the consent of the Company to use a particular method of payment. The permitted methods of payment are as follows:

(i) by cash, check, bank draft or money order payable to the Company;

(ii) pursuant to a program developed under Regulation T as promulgated by the Federal Reserve Board that, prior to the issuance of the stock subject to the Option, results in either the receipt of cash (or check) by the Company or the receipt of irrevocable instructions to pay the aggregate exercise price to the Company from the sales proceeds;

(iii) by delivery to the Company (either by actual delivery or attestation) of shares of Common Stock;

(iv) if an Option is a Nonstatutory Stock Option, by a "net exercise" arrangement pursuant to which the Company will reduce the number of shares of Common Stock issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price; *provided, however*, that the Company will accept a cash or other payment from the Participant to the extent of any remaining balance of the aggregate exercise price not satisfied by such reduction in the number of whole shares to be issued. Shares of Common Stock will no longer be subject to an Option and will not be exercisable thereafter to the extent that (A) shares issuable upon exercise are used to pay the exercise price pursuant to the "net exercise," (B) shares are delivered to the Participant as a result of such exercise, and (C) shares are withheld to satisfy tax withholding obligations; or

(v) in any other form of legal consideration that may be acceptable to the Board and specified in the applicable Award Agreement.

(d) Exercise and Payment of a SAR. To exercise any outstanding SAR, the Participant must provide written notice of exercise to the Company in compliance with the provisions of the Stock Appreciation Right Agreement evidencing such SAR. The appreciation distribution payable on the exercise of a SAR will be not greater than an amount equal to the excess of (A) the aggregate Fair Market Value (on the date of the exercise of the SAR) of a number of shares of Common Stock equal to the number of Common Stock equivalents in which the Participant is vested under such SAR, and with respect to which the Participant is exercising the SAR on such date, over (B) the aggregate strike price of the number of Common Stock equivalents with respect to which the Participant is exercising the SAR on such date. The appreciation distribution may be paid in Common Stock, in cash, in any combination of the two or in any other form of consideration, as determined by the Board and contained in the Award Agreement evidencing such SAR.

(e) Transferability of Options and SARs. The Board may, in its sole discretion, impose such limitations on the transferability of Options and SARs as the Board will determine. In the absence of such a determination by the Board to the contrary, the following restrictions on the transferability of Options and SARs will apply:

(i) Restrictions on Transfer. An Option or SAR will not be transferable except by will or by the laws of descent and distribution (or pursuant to subsections (ii) and (iii) below), and will be exercisable during the lifetime of the Participant only by the Participant. The Board may permit transfer of the Option or SAR in a manner that is not prohibited by applicable tax and securities laws. Except as explicitly provided in the Plan, neither an Option nor a SAR may be transferred for consideration.

(ii) Domestic Relations Orders. Subject to the approval of the Board or a duly authorized Officer, an Option or SAR may be transferred pursuant to the terms of a domestic relations order, official marital settlement agreement or other divorce or separation instrument as permitted by Treasury Regulations Section 1.421-1(b)(2). If an Option is an Incentive Stock Option, such Option may be deemed to be a Nonstatutory Stock Option as a result of such transfer.

(iii) Beneficiary Designation. Subject to the approval of the Board or a duly authorized Officer, a Participant may, by delivering written notice to the Company, in a form approved by the Company (or the designated broker), designate a third party who, on the death of the Participant, will thereafter be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. In the absence of such a designation, upon the death of the Participant, the executor or administrator of the Participant's estate will be entitled to exercise the Option or SAR and receive the Common Stock or other consideration resulting from such exercise. However, the Company may prohibit designation of a beneficiary at any time, including due to any conclusion by the Company that such designation would be inconsistent with the provisions of applicable laws.

(f) Vesting Generally. The total number of shares of Common Stock subject to an Option or SAR may vest and become exercisable in periodic installments that may or may not be equal. The Option or SAR may be subject to such other terms and conditions on the time or times when it may or may not be exercised (which may be based on the satisfaction of Performance Goals or other criteria) as the Board may deem appropriate. The vesting provisions of individual Options or SARs may vary. The provisions of this Section 5(f) are subject to any Option or SAR provisions governing the minimum number of shares of Common Stock as to which an Option or SAR may be exercised.

(g) Termination of Continuous Service. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates (other than for Cause and other than upon the Participant's death or Disability), the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Award as of the date of termination of Continuous Service) within the period of time ending on the earlier of (i) the date three months following the termination of the Participant's Continuous Service (or such longer or shorter period specified in the applicable Award Agreement), and (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR (as applicable) within the applicable time frame, the Option or SAR will terminate.

(h) Extension of Termination Date. If the exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause and other than upon the Participant's death or Disability) would be prohibited at any time solely because the issuance of shares of Common Stock would violate the registration requirements under the Securities Act, then the Option or SAR will terminate on the earlier of (i) the expiration of a total period of time (that need not be consecutive) equal to the applicable post termination exercise period after the termination of the Participant's Continuous Service during which the exercise of the Option or SAR would not be in violation of such registration requirements, and (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement. In addition, unless otherwise provided in a Participant's Award Agreement, if the sale of any Common Stock received on exercise of an Option or SAR following the termination of the Participant's Continuous Service (other than for Cause) would violate the Company's insider trading policy, then the Option or SAR will terminate on the earlier of (i) the expiration of a period of months (that need not be consecutive) equal to the applicable post-termination exercise period after the termination of the Participant's Continuous Service during which the sale of the Common Stock received upon exercise of the Option or SAR would not be in violation of the Company's insider trading policy, or (ii) the expiration of the term of the Option or SAR as set forth in the applicable Award Agreement.

(i) Disability of Participant. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if a Participant's Continuous Service terminates as a result of the Participant's Disability, the Participant may exercise his or her Option or SAR (to the extent that the Participant was entitled to exercise such Option or SAR as of the date of termination of Continuous Service), but only within such period of time ending on the earlier of (i) the date 12 months following such termination of Continuous Service (or such longer or shorter period specified in the Award Agreement), and (ii) the expiration of the term of the Option or SAR as set forth in the Award Agreement. If, after termination of Continuous Service, the Participant does not exercise his or her Option or SAR within the applicable time frame, the Option or SAR (as applicable) will terminate.

(j) Death of Participant. Except as otherwise provided in the applicable Award Agreement or other agreement between the Participant and the Company, if (i) a Participant's Continuous Service terminates as a result of the Participant's death, or (ii) the Participant dies within the period (if any) specified in the Award Agreement for exercisability after the termination of the Participant's Continuous Service for a reason other than death, then the Option or SAR may be exercised (to the extent the Participant was entitled to exercise such Option or SAR as of the date of death) by the Participant's estate, by a person who acquired the right to exercise the Option or SAR by bequest or inheritance or by a person designated to exercise the Option or SAR upon the Participant's death, but only within the period ending on the earlier of (i) the date 18 months following the date of death (or such longer or shorter period specified in the Award Agreement), and (ii) the expiration of the term of such Option or SAR as set forth in the Award Agreement. If, after the Participant's death, the Option or SAR is not exercised within the applicable time frame, the Option or SAR (as applicable) will terminate.

(k) Termination for Cause. Except as explicitly provided otherwise in a Participant's Award Agreement or other individual written agreement between the Company or any Affiliate and the Participant, if a Participant's Continuous Service is terminated for Cause, the Option or SAR will terminate immediately upon such Participant's termination of Continuous Service, and the Participant will be prohibited from exercising his or her Option or SAR from and after the time of such termination of Continuous Service.

(l) Non-Exempt Employees. If an Option or SAR is granted to an Employee who is a non-exempt employee for purposes of the Fair Labor Standards Act of 1938, as amended, the Option or SAR will not be first exercisable for any shares of Common Stock until at least six months following the date of grant of the Option or SAR (although the Award may vest prior to such date). Consistent with the provisions of the Worker Economic Opportunity Act, (i) if such non-exempt Employee dies or suffers a Disability, (ii) upon a Corporate Transaction in which such Option or SAR is not assumed, continued, or substituted, (iii) upon a Change in Control, or (iv) upon the Participant's retirement (as such term may be defined in the Participant's Award Agreement in another agreement between the Participant and the Company, or, if no such definition, in accordance with the Company's then current employment policies and guidelines), the vested portion of any Options and SARs may be exercised earlier than six months following the date of grant. The foregoing provision is intended to operate so that any income derived by a non-exempt employee in connection with the exercise or vesting of an Option or SAR will be exempt from his or her regular rate of pay. To the extent permitted and/or required for compliance with the Worker Economic Opportunity Act to ensure that any income derived by a non-exempt employee in connection with the exercise, vesting or issuance of any shares under any other Stock Award will be exempt from the employee's regular rate of pay, the provisions of this Section 5(l) will apply to all Stock Awards and are hereby incorporated by reference into such Stock Award Agreements.

6. PROVISIONS OF STOCK AWARDS OTHER THAN OPTIONS AND SARS.

(a) Restricted Stock Awards. Each Restricted Stock Award Agreement will be in such form and will contain such terms and conditions as the Board will deem appropriate. To the extent consistent with the Company's bylaws, at the Board's election, shares of Common Stock may be (x) held in book entry form subject to the Company's instructions until any restrictions relating to the Restricted Stock Award lapse; or (y) evidenced by a certificate, which certificate will be held in such form and manner as determined by the Board. The terms and conditions of Restricted Stock Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Award Agreements need not be identical. Each Restricted Stock Award Agreement will conform to (through incorporation of the provisions hereof by reference in the agreement or otherwise) the substance of each of the following provisions:

(i) Consideration. A Restricted Stock Award may be awarded in consideration for (A) cash, check, bank draft or money order payable to the Company, (B) past services to the Company or an Affiliate, or (C) any other form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) Vesting. Shares of Common Stock awarded under the Restricted Stock Award Agreement may be subject to forfeiture to the Company in accordance with a vesting schedule to be determined by the Board.

(iii) Termination of Participant's Continuous Service. If a Participant's Continuous Service terminates, the Company may receive through a forfeiture condition or a repurchase right any or all of the shares of Common Stock held by the Participant that have not vested as of the date of termination of Continuous Service under the terms of the Restricted Stock Award Agreement.

(iv) Transferability. Rights to acquire shares of Common Stock under the Restricted Stock Award Agreement will be transferable by the Participant only upon such terms and conditions as are set forth in the Restricted Stock Award Agreement, as the Board will determine in its sole discretion, so long as Common Stock awarded under the Restricted Stock Award Agreement remains subject to the terms of the Restricted Stock Award Agreement.

(v) Dividends. A Restricted Stock Award Agreement may provide that any dividends paid on Restricted Stock will be subject to the same vesting and forfeiture restrictions as apply to the shares subject to the Restricted Stock Award to which they relate.

(b) Restricted Stock Unit Awards. Each Restricted Stock Unit Award Agreement will be in such form and will contain such terms and conditions as the Board will deem appropriate. The terms and conditions of Restricted Stock Unit Award Agreements may change from time to time, and the terms and conditions of separate Restricted Stock Unit Award Agreements need not be identical. Each Restricted Stock Unit Award Agreement will conform to (through incorporation of the provisions hereof by reference in the Agreement or otherwise) the substance of each of the following provisions:

(i) Consideration. At the time of grant of a Restricted Stock Unit Award, the Board will determine the consideration, if any, to be paid by the Participant upon delivery of each share of Common Stock subject to the Restricted Stock Unit Award. The consideration to be paid (if any) by the Participant for each share of Common Stock subject to a Restricted Stock Unit Award may be paid in any form of legal consideration that may be acceptable to the Board, in its sole discretion, and permissible under applicable law.

(ii) Vesting. At the time of the grant of a Restricted Stock Unit Award, the Board may impose such restrictions on or conditions to the vesting of the Restricted Stock Unit Award as it, in its sole discretion, deems appropriate.

(iii) Payment. A Restricted Stock Unit Award may be settled by the delivery of shares of Common Stock, their cash equivalent, any combination thereof or in any other form of consideration, as determined by the Board and contained in the Restricted Stock Unit Award Agreement.

(iv) Additional Restrictions. At the time of the grant of a Restricted Stock Unit Award, the Board, as it deems appropriate, may impose such restrictions or conditions that delay the delivery of the shares of Common Stock (or their cash equivalent) subject to a Restricted Stock Unit Award to a time after the vesting of such Restricted Stock Unit Award.

(v) Dividend Equivalents. Dividend equivalents may be credited in respect of shares of Common Stock covered by a Restricted Stock Unit Award, as determined by the Board and contained in the Restricted Stock Unit Award Agreement. At the sole discretion of the Board, such dividend equivalents may be converted into additional shares of Common Stock covered by the Restricted Stock Unit Award in such manner as determined by the Board. Any additional shares covered by the Restricted Stock Unit Award credited by reason of such dividend equivalents will be subject to all of the same terms and conditions of the underlying Restricted Stock Unit Award Agreement to which they relate.

(vi) Termination of Participant's Continuous Service. Except as otherwise provided in the applicable Restricted Stock Unit Award Agreement, such portion of the Restricted Stock Unit Award that has not vested will be forfeited upon the Participant's termination of Continuous Service.

(c) Performance Awards.

(i) Performance Stock Awards. A Performance Stock Award is a Stock Award (covering a number of shares not in excess of that set forth in Section 3(d) above) that is payable (including that may be granted, may vest or may be exercised) contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Stock Award may, but need not, require the Participant's completion of a specified period of Continuous Service. The length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board), in its sole discretion. In addition, to the extent permitted by applicable law and the applicable Award Agreement, the Board may determine that cash may be used in payment of Performance Stock Awards.

(ii) Performance Cash Awards. A Performance Cash Award is a cash award (for a dollar value not in excess of that set forth in Section 3(d) above) that is payable contingent upon the attainment during a Performance Period of certain Performance Goals. A Performance Cash Award may also require the completion of a specified period of Continuous Service. At the time of grant of a Performance Cash Award, the length of any Performance Period, the Performance Goals to be achieved during the Performance Period, and the measure of whether and to what degree such Performance Goals have been attained will be conclusively determined by the Committee (or, if not required for compliance with Section 162(m) of the Code, the Board), in its sole discretion. The Board may specify the form of payment of Performance Cash Awards, which may be cash or other property, or may provide for a Participant to have the option for his or her Performance Cash Award, or such portion thereof as the Board may specify, to be paid in whole or in part in cash or other property.

(iii) Board Discretion. The Board retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for a Performance Period. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award.

(iv) Section 162(m) Compliance. Unless otherwise permitted in compliance with the requirements of Section 162(m) of the Code with respect to an Award intended to qualify as "performance-based compensation" thereunder, the Committee will establish the Performance Goals applicable to, and the formula for calculating the amount payable under, the Award no later than the earlier of (a) the date 90 days after the commencement of the applicable Performance Period, and (b) the date on which 25% of the Performance Period has elapsed, and in any event at a time when the achievement of the applicable Performance Goals remains substantially uncertain. Prior to the payment of any compensation under an Award intended to qualify as "performance-based compensation" under Section 162(m) of the Code, the Committee will certify the extent to which any Performance Goals and any other material terms under such Award have been satisfied (other than in cases where such Performance Goals relate solely to the increase in the value of the Common Stock). Notwithstanding satisfaction of, or completion of any Performance Goals, the number of shares of Common Stock, Options, cash or other benefits granted, issued, retainable and/or vested under an Award on account of satisfaction of such Performance Goals may be reduced by the Committee on the basis of such further considerations as the Committee, in its sole discretion, will determine.

(d) Other Stock Awards. Other forms of Stock Awards valued in whole or in part by reference to, or otherwise based on, Common Stock, including the appreciation in value thereof (e.g., options or stock rights with an exercise price or strike price less than 100% of the Fair Market Value of the Common Stock at the time of grant) may be granted either alone or in addition to Stock Awards provided for under Section 5 and the preceding provisions of this Section 6. Subject to the provisions of the Plan, the Board will have sole and complete authority to determine the persons to whom and the time or times at which such Other Stock Awards will be granted, the number of shares of Common Stock (or the cash equivalent thereof) to be granted pursuant to such Other Stock Awards and all other terms and conditions of such Other Stock Awards.

7. COVENANTS OF THE COMPANY.

(a) Availability of Shares. The Company will keep available at all times the number of shares of Common Stock reasonably required to satisfy then-outstanding Awards.

(b) Securities Law Compliance. The Company will seek to obtain from each regulatory commission or agency having jurisdiction over the Plan such authority as may be required to grant Stock Awards and to issue and sell shares of Common Stock upon exercise of the Stock Awards; *provided, however*, that this undertaking will not require the Company to register under the Securities Act the Plan, any Stock Award or any Common Stock issued or issuable pursuant to any such Stock Award. If, after reasonable efforts and at a reasonable cost, the Company is unable to obtain from any such regulatory commission or agency the authority that counsel for the Company deems necessary for the lawful issuance and sale of Common Stock under the Plan, the Company will be relieved from any liability for failure to issue and sell Common Stock upon exercise of such Stock Awards unless and until such authority is obtained. A Participant will not be eligible for the grant of an Award or the subsequent issuance of cash or Common Stock pursuant to the Award if such grant or issuance would be in violation of any applicable securities law.

(c) No Obligation to Notify or Minimize Taxes. The Company will have no duty or obligation to any Participant to advise such holder as to the time or manner of exercising such Stock Award. Furthermore, the Company will have no duty or obligation to warn or otherwise advise such holder of a pending termination or expiration of an Award or a possible period in which the Award may not be exercised. The Company has no duty or obligation to minimize the tax consequences of an Award to the holder of such Award.

8. MISCELLANEOUS.

(a) Use of Proceeds from Sales of Common Stock. Proceeds from the sale of shares of Common Stock pursuant to Awards will constitute general funds of the Company.

(b) Corporate Action Constituting Grant of Awards. Corporate action constituting a grant by the Company of an Award to any Participant will be deemed completed as of the date of such corporate action, unless otherwise determined by the Board, regardless of when the instrument, certificate, or letter evidencing the Award is communicated to, or actually received or accepted by, the Participant. In the event that the corporate records (e.g., Board consents, resolutions or minutes) documenting the corporate action constituting the grant contain terms (e.g., exercise price, vesting schedule or number of shares) that are inconsistent with those in the Award Agreement or related grant documents as a result of a clerical error in the papering of the Award Agreement or related grant documents, the corporate records will control and the Participant will have no legally binding right to the incorrect term in the Award Agreement or related grant documents.

(c) Stockholder Rights. No Participant will be deemed to be the holder of, or to have any of the rights of a holder with respect to, any shares of Common Stock subject to an Award unless and until (i) such Participant has satisfied all requirements for exercise of, or the issuance of shares of Common Stock under, the Award pursuant to its terms, and (ii) the issuance of the Common Stock subject to such Award has been entered into the books and records of the Company.

(d) No Employment or Other Service Rights. Nothing in the Plan, any Award Agreement or any other instrument executed thereunder or in connection with any Award granted pursuant thereto will confer upon any Participant any right to continue to serve the Company or an Affiliate in the capacity in effect at the time the Award was granted or will affect the right of the Company or an Affiliate to terminate (i) the employment of an Employee with or without notice and with or without cause, (ii) the service of a Consultant pursuant to the terms of such Consultant's agreement with the Company or an Affiliate, or (iii) the service of a Director pursuant to the bylaws of the Company or an Affiliate, and any applicable provisions of the corporate law of the state in which the Company or the Affiliate is incorporated, as the case may be.

(e) Change in Time Commitment. In the event a Participant's regular level of time commitment in the performance of his or her services for the Company and any Affiliates is reduced (for example, and without limitation, if the Participant is an Employee of the Company and the Employee has a change in status from a full-time Employee to a part-time Employee or takes an extended leave of absence) after the date of grant of any Award to the Participant, the Board has the right in its sole discretion to (x) make a corresponding reduction in the number of shares or cash amount subject to any portion of such Award that is scheduled to vest or become payable after the date of such change in time commitment, and (y) in lieu of or in combination with such a reduction, extend the vesting or payment schedule applicable to such Award. In the event of any such reduction, the Participant will have no right with respect to any portion of the Award that is so reduced or extended.

(f) Incentive Stock Option Limitations. To the extent that the aggregate Fair Market Value (determined at the time of grant) of Common Stock with respect to which Incentive Stock Options are exercisable for the first time by any Optionholder during any calendar year (under all plans of the Company and any Affiliates) exceeds $100,000 (or such other limit established in the Code) or otherwise does not comply with the rules governing Incentive Stock Options, the Options or portions thereof that exceed such limit (according to the order in which they were granted) or otherwise do not comply with such rules will be treated as Nonstatutory Stock Options, notwithstanding any contrary provision of the applicable Option Agreement(s).

(g) Investment Assurances. The Company may require a Participant, as a condition of exercising or acquiring Common Stock under any Award, (i) to give written assurances satisfactory to the Company as to the Participant's knowledge and experience in financial and business matters and/or to employ a purchaser representative reasonably satisfactory to the Company who is knowledgeable and experienced in financial and business matters and that such Participant is capable of evaluating, alone or together with the purchaser representative, the merits and risks of exercising the Award; and (ii) to give written assurances satisfactory to the Company stating that the Participant is acquiring Common Stock subject to the Award for the Participant's own account and not with any present intention of selling or otherwise distributing the Common Stock. The foregoing requirements, and any assurances given pursuant to such requirements, will be inoperative if (A) the issuance of the shares upon the exercise or acquisition of Common Stock under the Award has been registered under a then currently effective registration statement under the Securities Act, or (B) as to any particular requirement, a determination is made by counsel for the Company that such requirement need not be met in the circumstances under the then applicable securities laws. The Company may, upon advice of counsel to the Company, place legends on stock certificates issued under the Plan as such counsel deems necessary or appropriate in order to comply with applicable securities laws, including, but not limited to, legends restricting the transfer of the Common Stock.

(h) Withholding Obligations. Unless prohibited by the terms of an Award Agreement, the Company may, in its sole discretion, satisfy any federal, state or local tax withholding obligation relating to an Award by any of the following means or by a combination of such means: (i) causing the Participant to tender a cash payment; (ii) withholding shares of Common Stock from the shares of Common Stock issued or otherwise issuable to the Participant in connection with the Award; *provided, however,* that no shares of Common Stock are withheld with a value exceeding the minimum amount of tax required to be withheld by law (or such lesser amount as may be necessary to avoid classification of the Stock Award as a liability for financial accounting purposes); (iii) withholding cash from an Award settled in cash; (iv) withholding payment from any amounts otherwise payable to the Participant; or (v) by such other method as may be set forth in the Award Agreement.

(i) Electronic Delivery. Any reference herein to a "written" agreement or document will include any agreement or document delivered electronically, filed publicly at www.sec.gov (or any successor website thereto) or posted on the Company's intranet (or other shared electronic medium controlled by the Company to which the Participant has access).

(j) Deferrals. To the extent permitted by applicable law, the Board, in its sole discretion, may determine that the delivery of Common Stock or the payment of cash, upon the exercise, vesting or settlement of all or a portion of any Award may be deferred and may establish programs and procedures for deferral elections to be made by Participants. Deferrals by Participants will be made in accordance with Section 409A of the Code. Consistent with Section 409A of the Code, the Board may provide for distributions while a Participant is still an employee or otherwise providing services to the Company. The Board is authorized to make deferrals of Awards and determine when, and in what annual percentages, Participants may receive payments, including lump sum payments, following the Participant's termination of Continuous Service, and implement such other terms and conditions consistent with the provisions of the Plan and in accordance with applicable law.

(k) Compliance with Section 409A of the Code. Unless otherwise expressly provided for in an Award Agreement, the Plan and Award Agreements will be interpreted to the greatest extent possible in a manner that makes the Plan and the Awards granted hereunder exempt from Section 409A of the Code, and, to the extent not so exempt, in compliance with Section 409A of the Code. If the Board determines that any Award granted hereunder is not exempt from and is therefore subject to Section 409A of the Code, the Award Agreement evidencing such Award will incorporate the terms and conditions necessary to avoid the consequences specified in Section 409A(a)(1) of the Code, and to the extent an Award Agreement is silent on terms necessary for compliance, such terms are hereby incorporated by reference into the Award Agreement. Notwithstanding anything to the contrary in this Plan (and unless the Award Agreement specifically provides otherwise), if the shares of Common Stock are publicly traded, and if a Participant holding an Award that constitutes "deferred compensation" under Section 409A of the Code is a "specified employee" for purposes of Section 409A of the Code, no distribution or payment of any amount that is due because of a "separation from service" (as defined in Section 409A of the Code without regard to alternative definitions thereunder) will be issued or paid before the date that is six months following the date of such Participant's "separation from service" (as defined in Section 409A of the Code without regard to alternative definitions thereunder) or, if earlier, the date of the Participant's death, unless such distribution or payment can be made in a manner that complies with Section 409A of the Code, and any amounts so deferred will be paid in a lump sum on the day after such six month period elapses, with the balance paid thereafter on the original schedule.

(l) Clawback/Recovery. All Awards granted under the Plan will be subject to recoupment in accordance with any clawback policy that the Company is required to adopt pursuant to the listing standards of any national securities exchange or association on which the Company's securities are listed or as is otherwise required by the Dodd-Frank Wall Street Reform and Consumer Protection Act or other applicable law. In addition, the Board may impose such other clawback, recovery or recoupment provisions in an Award Agreement as the Board determines necessary or appropriate, including but not limited to a reacquisition right in respect of previously acquired shares of Common Stock or other cash or property upon the occurrence of an event constituting Cause. No recovery of compensation under such a clawback policy will be an event giving rise to a right to resign for "good reason" or "constructive termination" (or similar term) under any agreement with the Company.

9. ADJUSTMENTS UPON CHANGES IN COMMON STOCK; OTHER CORPORATE EVENTS.

(a) Capitalization Adjustments. In the event of a Capitalization Adjustment, the Board will appropriately and proportionately adjust: (i) the class(es) and maximum number of securities subject to the Plan pursuant to Section 3(a), (ii) the class(es) and maximum number of securities that may be issued pursuant to the exercise of Incentive Stock Options pursuant to Section 3(c), (iii) the class(es) and maximum number of securities that may be awarded to any person pursuant to Sections 3(d), and (iv) the class(es) and number of securities and price per share of stock subject to outstanding Stock Awards. The Board will make such adjustments, and its determination will be final, binding and conclusive.

(b) Dissolution or Liquidation. Except as otherwise provided in the Stock Award Agreement, in the event of a dissolution or liquidation of the Company, all outstanding Stock Awards (other than Stock Awards consisting of vested and outstanding shares of Common Stock not subject to a forfeiture condition or the Company's right of repurchase) will terminate immediately prior to the completion of such dissolution or liquidation, and the shares of Common Stock subject to the Company's repurchase rights or subject to a forfeiture condition may be repurchased or reacquired by the Company notwithstanding the fact that the holder of such Stock Award is providing Continuous Service; *provided*, *however*, that the Board may, in its sole discretion, cause some or all Stock Awards to become fully vested, exercisable and/or no longer subject to repurchase or forfeiture (to the extent such Stock Awards have not previously expired or terminated) before the dissolution or liquidation is completed but contingent on its completion.

(c) Corporate Transaction. The following provisions shall apply to Stock Awards in the event of a Corporate Transaction unless otherwise provided in the instrument evidencing the Stock Award or any other written agreement between the Company or any Affiliate and the Participant or unless otherwise expressly provided by the Board at the time of grant of a Stock Award. In the event of a Corporate Transaction, then, notwithstanding any other provision of the Plan, the Board shall take one or more of the following actions with respect to Stock Awards, contingent upon the closing or completion of the Corporate Transaction:

(i) arrange for the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company) to assume or continue the Stock Award or to substitute a similar stock award for the Stock Award (including, but not limited to, an award to acquire the same consideration paid to the stockholders of the Company pursuant to the Corporate Transaction);

(ii) arrange for the assignment of any reacquisition or repurchase rights held by the Company in respect of Common Stock issued pursuant to the Stock Award to the surviving corporation or acquiring corporation (or the surviving or acquiring corporation's parent company);

(iii) accelerate the vesting, in whole or in part, of the Stock Award (and, if applicable, the time at which the Stock Award may be exercised) to a date prior to the effective time of such Corporate Transaction as the Board shall determine (or, if the Board shall not determine such a date, to the date that is five days prior to the effective date of the Corporate Transaction), with such Stock Award terminating if not exercised (if applicable) at or prior to the effective time of the Corporate Transaction;

(iv) arrange for the lapse, in whole or in part, of any reacquisition or repurchase rights held by the Company with respect to the Stock Award;

(v) cancel or arrange for the cancellation of the Stock Award, to the extent not vested or not exercised prior to the effective time of the Corporate Transaction, in exchange for such cash consideration, if any, as the Board, in its sole discretion, may consider appropriate; and

(vi) make a payment, in such form as may be determined by the Board equal to the excess, if any, of (A) the value of the property the Participant would have received upon the exercise of the Stock Award immediately prior to the effective time of the Corporate Transaction, over (B) any exercise price payable by such holder in connection with such exercise. For clarity, this payment may be zero ($0) if the value of the property is equal to or less than the exercise price. Payments under this provision may be delayed to the same extent that payment of consideration to the holders of Common Stock in connection with the Corporate Transaction is delayed as a result of escrows, earn outs, holdbacks or other contingencies.

The Board need not take the same action or actions with respect to all Stock Awards or portions thereof or with respect to all Participants. The Board may take different actions with respect to the vested and unvested portions of a Stock Award.

(d) Change in Control. A Stock Award may be subject to additional acceleration of vesting and exercisability upon or after a Change in Control as may be provided in the Stock Award Agreement for such Stock Award or as may be provided in any other written agreement between the Company or any Affiliate and the Participant, but in the absence of such provision, no such acceleration will occur.

10. PLAN TERM; EARLIER TERMINATION OR SUSPENSION OF THE PLAN.

The Board may suspend or terminate the Plan at any time. No Incentive Stock Options may be granted after the tenth anniversary of the earlier of (i) the date the Plan is adopted by the Board (the "***Adoption Date***"), or (ii) the date the Plan is approved by the stockholders of the Company. No Awards may be granted under the Plan while the Plan is suspended or after it is terminated. Suspension or termination of the Plan will not impair rights and obligations under any Award granted while the Plan is in effect except with the written consent of the affected Participant or as otherwise permitted in the Plan.

11. EFFECTIVE DATE OF PLAN.

The Plan will become effective on the Effective Date.

12. CHOICE OF LAW.

The law of the State of Delaware will govern all questions concerning the construction, validity and interpretation of this Plan, without regard to that state's conflict of laws rules.

13. DEFINITIONS. As used in the Plan, the following definitions will apply to the capitalized terms indicated below:

(a) "***Affiliate***" means, at the time of determination, any "parent" or "subsidiary" of the Company as such terms are defined in Rule 405 of the Securities Act. The Board will have the authority to determine the time or times at which "parent" or "subsidiary" status is determined within the foregoing definition.

(b) "***Appreciation Award***" means (i) a stock option or stock appreciation right granted under the Prior Plans or (ii) an Option or Stock Appreciation Right, in each case with respect to which the exercise or strike price is at least one hundred percent (100%) of the Fair Market Value of the Common Stock subject to the stock option or stock appreciation right, or Option or Stock Appreciation Right, as applicable, on the date of grant.

(c) "***Award***" means a Stock Award or a Performance Cash Award.

(d) "***Award Agreement***" means a written agreement between the Company and a Participant evidencing the terms and conditions of an Award.

(e) "***Board***" means the Board of Directors of the Company.

(f) "***Capital Stock***" means each and every class of common stock of the Company, regardless of the number of votes per share.

(g) "***Capitalization Adjustment***" means any change that is made in, or other events that occur with respect to, the Common Stock subject to the Plan or subject to any Stock Award after the Adoption Date without the receipt of consideration by the Company through merger, consolidation, reorganization, recapitalization, reincorporation, stock dividend, dividend in property other than cash, large nonrecurring cash dividend, stock split, reverse stock split, liquidating dividend, combination of shares, exchange of shares, change in corporate structure or any similar equity restructuring transaction, as that term is used in Statement of Financial Accounting Standards Board Accounting Standards Codification Topic 718 (or any successor thereto). Notwithstanding the foregoing, the conversion of any convertible securities of the Company will not be treated as a Capitalization Adjustment.

(h) "***Cause***" shall have the meaning ascribed to such term in any written agreement between the Participant and the Company defining such term and, in the absence of such agreement, such term means, with respect to a Participant, the occurrence of any of the following events: (i) such Participant's commission of any felony or any crime involving fraud, dishonesty or moral turpitude under the laws of the United States or any state thereof; (ii) such Participant's attempted commission of, or participation in, a fraud or act of dishonesty against the Company; (iii) such Participant's intentional, material violation of any contract or agreement between the Participant and the Company or of any statutory duty owed to the Company; (iv) such Participant's unauthorized use or disclosure of the Company's confidential information or trade secrets; or (v) such Participant's gross misconduct. The determination that a termination of the Participant's Continuous Service is either for Cause or without Cause shall be made by the Company, in its sole discretion. Any determination by the Company that the Continuous Service of a Participant was terminated with or without Cause for the purposes of outstanding Awards held by such Participant shall have no effect upon any determination of the rights or obligations of the Company or such Participant for any other purpose.

(i) "***Change in Control***" means the occurrence, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) any Exchange Act Person becomes the Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities other than by virtue of a merger, consolidation or similar transaction. Notwithstanding the foregoing, a Change in Control will not be deemed to occur (A) on account of the acquisition of securities of the Company directly from the Company, (B) on account of the acquisition of securities of the Company by an investor, any affiliate thereof or any other Exchange Act Person that acquires the Company's securities in a transaction or series of related transactions the primary purpose of which is to obtain financing for the Company through the issuance of equity securities, (C) on account of the acquisition of securities of the Company by any individual who is, on the Adoption Date, either an executive officer or a Director (either, a "***Legacy Investor***") and/or any entity in which a Legacy Investor has a direct or indirect interest (whether in the form of voting rights or participation in profits or capital contributions) of more than 50% (collectively, the "***Legacy Entities***") or on account of the Legacy Entities continuing to hold shares that come to represent more than 50% of the combined voting power of the Company's then outstanding securities as a result of the conversion of any class of the Company's securities into another class of the Company's securities having a different number of votes per share pursuant to the conversion provisions set forth in the Company's Amended and Restated Certificate of Incorporation; or (D) solely because the level of Ownership held by any Exchange Act Person (the "***Subject Person***") exceeds the designated percentage threshold of the outstanding voting securities as a result of a repurchase or other acquisition of voting securities by the Company reducing the number of shares outstanding, provided that if a Change in Control would occur (but for the operation of this sentence) as a result of the acquisition of voting securities by the Company, and after such share acquisition, the Subject Person becomes the Owner of any additional voting securities that, assuming the repurchase or other acquisition had not occurred, increases the percentage of the then outstanding voting securities Owned by the Subject Person over the designated percentage threshold, then a Change in Control will be deemed to occur;

(ii) there is consummated a merger, consolidation or similar transaction involving (directly or indirectly) the Company and, immediately after the consummation of such merger, consolidation or similar transaction, the stockholders of the Company immediately prior thereto do not Own, directly or indirectly, either (A) outstanding voting securities representing more than 50% of the combined outstanding voting power of the surviving Entity in such merger, consolidation or similar transaction or (B) more than 50% of the combined outstanding voting power of the parent of the surviving Entity in such merger, consolidation or similar transaction, in each case in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such transaction; *provided*, *however*, that a merger, consolidation or similar transaction will not constitute a Change in Control under this prong of the definition if the outstanding voting securities representing more than 50% of the combined voting power of the surviving Entity or its parent are owned by the Legacy Entities;

(iii) there is consummated a sale, lease, exclusive license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries, other than a sale, lease, license or other disposition of all or substantially all of the consolidated assets of the Company and its Subsidiaries to an Entity, more than 50% of the combined voting power of the voting securities of which are Owned by stockholders of the Company in substantially the same proportions as their Ownership of the outstanding voting securities of the Company immediately prior to such sale, lease, license or other disposition; *provided, however*, that a sale, the Company and its Subsidiaries will not constitute a Change in Control under this prong of the definition if the outstanding voting securities representing more than 50% of the combined voting power of the acquiring Entity or its parent are owned by the Legacy Entities;

(iv) the stockholders of the Company approve or the Board approves a plan of complete dissolution or liquidation of the Company, or a complete dissolution or liquidation of the Company will otherwise occur, except for a liquidation into a parent corporation; or

(v) individuals who, on the date the Plan is adopted by the Board, are members of the Board (the "***Incumbent Board***") cease for any reason to constitute at least a majority of the members of the Board; *provided, however,* that if the appointment or election (or nomination for election) of any new Board member was approved or recommended by a majority vote of the members of the Incumbent Board then still in office, such new member will, for purposes of this Plan, be considered as a member of the Incumbent Board.

Notwithstanding the foregoing definition or any other provision of the Plan, the term Change in Control will not include a sale of assets, merger or other transaction effected exclusively for the purpose of changing the domicile of the Company and the definition of Change in Control (or any analogous term) in an individual written agreement between the Company or any Affiliate and the Participant will supersede the foregoing definition with respect to Awards subject to such agreement; *provided, however*, that if no definition of Change in Control or any analogous term is set forth in such an individual written agreement, the foregoing definition will apply.

(j) "***Code***" means the Internal Revenue Code of 1986, as amended, including any applicable regulations and guidance thereunder.

(k) "***Committee***" means a committee of one or more Directors to whom authority has been delegated by the Board in accordance with Section 2(c).

(l) "***Common Stock***" means the common stock of the Company, having one vote per share.

(m) "***Company***" means Sucampo Pharmaceuticals, Inc., a Delaware corporation.

(n) "***Consultant***" means any person, including an advisor, who is (i) engaged by the Company or an Affiliate to render consulting or advisory services and is compensated for such services, or (ii) serving as a member of the board of directors of an Affiliate and is compensated for such services. However, service solely as a Director, or payment of a fee for such service, will not cause a Director to be considered a "Consultant" for purposes of the Plan. Notwithstanding the foregoing, a person is treated as a Consultant under this Plan only if a Form S-8 Registration Statement under the Securities Act is available to register either the offer or the sale of the Company's securities to such person.

(o) "***Continuous Service***" means that the Participant's service with the Company or an Affiliate, whether as an Employee, Director or Consultant, is not interrupted or terminated. A change in the capacity in which the Participant renders service to the Company or an Affiliate as an Employee, Consultant or Director or a change in the entity for which the Participant renders such service, provided that there is no interruption or termination of the Participant's service with the Company or an Affiliate, will not terminate a Participant's Continuous Service; *provided, however*, that if the Entity for which a Participant is rendering services ceases to qualify as an Affiliate, as determined by the Board, in its sole discretion, such Participant's Continuous Service will be considered to have terminated on the date such Entity ceases to qualify as an Affiliate. To the extent permitted by law, the Board or the chief executive officer of the Company, in that party's sole discretion, may determine whether Continuous Service will be considered interrupted in the case of (i) any leave of absence approved by the Board or chief executive officer, including sick leave, military leave or any other personal leave, or (ii) transfers between the Company, an Affiliate, or their successors. Notwithstanding the foregoing, a leave of absence will be treated as Continuous Service for purposes of vesting in an Award only to such extent as may be provided in the Company's leave of absence policy, in the written terms of any leave of absence agreement or policy applicable to the Participant, or as otherwise required by law.

(p) "***Corporate Transaction***" means the consummation, in a single transaction or in a series of related transactions, of any one or more of the following events:

(i) a sale or other disposition of all or substantially all, as determined by the Board, in its sole discretion, of the consolidated assets of the Company and its Subsidiaries;

(ii) a sale or other disposition of at least 50% of the outstanding securities of the Company;

(iii) a merger, consolidation or similar transaction following which the Company is not the surviving corporation; or

(iv) a merger, consolidation or similar transaction following which the Company is the surviving corporation but the shares of Common Stock outstanding immediately preceding the merger, consolidation or similar transaction are converted or exchanged by virtue of the merger, consolidation or similar transaction into other property, whether in the form of securities, cash or otherwise.

(q) "***Covered Employee***" will have the meaning provided in Section 162(m)(3) of the Code.

(r) "***Director***" means a member of the Board.

(s) "***Disability***" means, with respect to a Participant, the inability of such Participant to engage in any substantial gainful activity by reason of any medically determinable physical or mental impairment that can be expected to result in death or that has lasted or can be expected to last for a continuous period of not less than 12 months, as provided in Sections 22(e)(3) and 409A(a)(2)(c)(i) of the Code, and will be determined by the Board on the basis of such medical evidence as the Board deems warranted under the circumstances.

(t) "***Effective Date***" means the effective date of this Plan, which is the earlier of (i) the date that this Plan is first approved by the Company's stockholders, and (ii) the date this Plan is adopted by the Board.

(u) "***Employee***" means any person employed by the Company or an Affiliate. However, service solely as a Director, or payment of a fee for such services, will not cause a Director to be considered an "Employee" for purposes of the Plan.

(v) "***Entity***" means a corporation, partnership, limited liability company or other entity.

(w) "***Exchange Act***" means the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder.

(x) "***Exchange Act Person***" means any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act), except that "Exchange Act Person" will not include (i) the Company or any Subsidiary of the Company, (ii) any employee benefit plan of the Company or any Subsidiary of the Company or any trustee or other fiduciary holding securities under an employee benefit plan of the Company or any Subsidiary of the Company, (iii) an underwriter temporarily holding securities pursuant to a registered public offering of such securities, (iv) an Entity Owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their Ownership of stock of the Company; or (v) any natural person, Entity or "group" (within the meaning of Section 13(d) or 14(d) of the Exchange Act) that, as of the Effective Date, is the Owner, directly or indirectly, of securities of the Company representing more than 50% of the combined voting power of the Company's then outstanding securities.

(y) "***Fair Market Value***" means, as of any date, the value of the Common Stock determined as follows:

(i) If the Common Stock is listed on any established stock exchange or traded on any established market, the Fair Market Value of a share of Common Stock will be, unless otherwise determined by the Board, the closing sales price for such stock as quoted on such exchange or market (or the exchange or market with the greatest volume of trading in the Common Stock) on the date of determination, as reported in a source the Board deems reliable.

(ii) Unless otherwise provided by the Board, if there is no closing sales price for the Common Stock on the date of determination, then the Fair Market Value will be the closing selling price on the last preceding date for which such quotation exists.

(iii) In the absence of such markets for the Common Stock, the Fair Market Value will be determined by the Board in good faith and in a manner that complies with Sections 409A and 422 of the Code.

(z) "***Full Value Award***" means (i) a stock award granted under the Prior Plans or (ii) a Stock Award, in each case that is not an Appreciation Award.

(aa) "***Incentive Stock Option***" means an option granted pursuant to Section 5 of the Plan that is intended to be, and qualifies as, an "incentive stock option" within the meaning of Section 422 of the Code.

(bb) "***Non-Employee Director***" means a Director who either (i) is not a current employee or officer of the Company or an Affiliate, does not receive compensation, either directly or indirectly, from the Company or an Affiliate for services rendered as a consultant or in any capacity other than as a Director (except for an amount as to which disclosure would not be required under Item 404(a) of Regulation S-K promulgated pursuant to the Securities Act ("***Regulation S-K***")), does not possess an interest in any other transaction for which disclosure would be required under Item 404(a) of Regulation S-K, and is not engaged in a business relationship for which disclosure would be required pursuant to Item 404(b) of Regulation S-K; or (ii) is otherwise considered a "non-employee director" for purposes of Rule 16b-3.

(cc) "***Nonstatutory Stock Option***" means any Option granted pursuant to Section 5 of the Plan that does not qualify as an Incentive Stock Option.

(dd) "***Officer***" means a person who is an officer of the Company within the meaning of Section 16 of the Exchange Act.

(ee) "***Option***" means an Incentive Stock Option or a Nonstatutory Stock Option to purchase shares of Common Stock granted pursuant to the Plan.

(ff) "***Option Agreement***" means a written agreement between the Company and an Optionholder evidencing the terms and conditions of an Option grant. Each Option Agreement will be subject to the terms and conditions of the Plan.

(gg) "***Optionholder***" means a person to whom an Option is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Option.

(hh) "***Other Stock Award***" means an award based in whole or in part by reference to the Common Stock which is granted pursuant to the terms and conditions of Section 6(d).

(ii) "***Other Stock Award Agreement***" means a written agreement between the Company and a holder of an Other Stock Award evidencing the terms and conditions of an Other Stock Award grant. Each Other Stock Award Agreement will be subject to the terms and conditions of the Plan.

(jj) "***Outside Director***" means a Director who either (i) is not a current employee of the Company or an "affiliated corporation" (within the meaning of Treasury Regulations promulgated under Section 162(m) of the Code), is not a former employee of the Company or an "affiliated corporation" who receives compensation for prior services (other than benefits under a tax-qualified retirement plan) during the taxable year, has not been an officer of the Company or an "affiliated corporation," and does not receive remuneration from the Company or an "affiliated corporation," either directly or indirectly, in any capacity other than as a Director, or (ii) is otherwise considered an "outside director" for purposes of Section 162(m) of the Code.

(kk) "***Own,***" "***Owned,***" "***Owner,***" "***Ownership***" means a person or Entity will be deemed to "Own," to have "Owned," to be the "Owner" of, or to have acquired "Ownership" of securities if such person or Entity, directly or indirectly, through any contract, arrangement, understanding, relationship or otherwise, has or shares voting power, which includes the power to vote or to direct the voting, with respect to such securities.

(ll) "***Participant***" means a person to whom an Award is granted pursuant to the Plan or, if applicable, such other person who holds an outstanding Stock Award.

(mm) "***Performance Cash Award***" means an award of cash granted pursuant to the terms and conditions of Section 6(c)(ii).

(nn) "***Performance Criteria***" means the one or more criteria that the Board will select for purposes of establishing the Performance Goals for a Performance Period. The Performance Criteria that will be used to establish such Performance Goals may be based on any one of, or combination of, the following as determined by the Board: (i) earnings (including earnings per share and net earnings); (ii) earnings before interest, taxes and depreciation; (iii) earnings before interest, taxes, depreciation and amortization; (iv) earnings before interest, taxes, depreciation, amortization and legal settlements; (v) earnings before interest, taxes, depreciation, amortization, legal settlements and other income (expense); (vi) earnings before interest, taxes, depreciation, amortization, legal settlements, other income (expense) and stock-based compensation; (vii) earnings before interest, taxes, depreciation, amortization, legal settlements, other income (expense), stock-based compensation and changes in deferred revenue; (viii) earnings before interest, taxes, depreciation, amortization, legal settlements, other income (expense), stock-based compensation, other non-cash expenses and changes in deferred revenue; (ix) total stockholder return; (x) return on equity or average stockholder's equity; (xi) return on assets, investment, or capital employed; (xii) stock price; (xiii) margin (including gross margin); (xiv) income (before or after taxes); (xv) operating income; (xvi) operating income after taxes; (xvii) pre-tax profit; (xviii) operating cash flow; (xix) sales or revenue targets; (xx) increases in revenue or product revenue; (xxi) expenses and cost reduction goals; (xxii) improvement in or attainment of working capital levels; (xxiii) economic value added (or an equivalent metric); (xxiv) market share; (xxv) cash flow; (xxvi) cash flow per share; (xxvii) cash balance; (xxviii) cash burn; (xxix) cash collections; (xxx) share price performance; (xxxi) debt reduction; (xxxii) implementation or completion of projects or processes (including, without limitation, clinical trial initiation, clinical trial enrollment and dates, clinical trial results, regulatory filing submissions, regulatory filing acceptances, regulatory or advisory committee interactions, regulatory approvals, and product supply); (xxxiii) stockholders' equity; (xxxiv) capital expenditures; (xxxv) debt levels; (xxxvi) operating profit or net operating profit; (xxxvii) workforce diversity; (xxxviii) growth of net income or operating income; (xxxix) billings; (xl) bookings; (xli) employee retention; (xlii) initiation of studies by specific dates; (xliii) budget management; (xliv) submission to, or approval by, a regulatory body (including, but not limited to the U.S. Food and Drug Administration) of an applicable filing or a product; (xlv) regulatory milestones; (xlvi) progress of internal research or development programs; (xlvii) acquisition of new customers; (xlviii) customer retention and/or repeat order rate; (xlix) improvements in sample and test processing times; (l) progress of partnered programs; (li) partner satisfaction; (lii) timely completion of clinical trials; (liii) submission of 510(k)s or pre-market approvals and other regulatory achievements; (liv) milestones related to samples received and/or tests or panels run; (lv) expansion of sales in additional geographies or markets; (lvi) research progress, including the development of programs; (lvii) strategic partnerships or transactions (including in-licensing and out-licensing of intellectual property; and (lviii) and to the extent that an Award is not intended to comply with Section 162(m) of the Code, other measures of performance selected by the Board.

(oo) "***Performance Goals***" means, for a Performance Period, the one or more goals established by the Board for the Performance Period based upon the Performance Criteria. Performance Goals may be based on a Company-wide basis, with respect to one or more business units, divisions, Affiliates, or business segments, and in either absolute terms or relative to the performance of one or more comparable companies or the performance of one or more relevant indices. Unless specified otherwise by the Board (i) in the Award Agreement at the time the Award is granted or (ii) in such other document setting forth the Performance Goals at the time the Performance Goals are established, the Board will appropriately make adjustments in the method of calculating the attainment of Performance Goals for a Performance Period as follows: (1) to exclude restructuring and/or other nonrecurring charges; (2) to exclude exchange rate effects; (3) to exclude the effects of changes to generally accepted accounting principles; (4) to exclude the effects of any statutory adjustments to corporate tax rates; (5) to exclude the effects of any "extraordinary items" as determined under generally accepted accounting principles; (6) to exclude the dilutive effects of acquisitions or joint ventures; (7) to assume that any business divested by the Company achieved performance objectives at targeted levels during the balance of a Performance Period following such divestiture; (8) to exclude the effect of any change in the outstanding shares of common stock of the Company by reason of any stock dividend or split, stock repurchase, reorganization, recapitalization, merger, consolidation, spin-off, combination or exchange of shares or other similar corporate change, or any distributions to common stockholders other than regular cash dividends; (9) to exclude the effects of stock based compensation and the award of bonuses under the Company's bonus plans; (10) to exclude costs incurred in connection with potential acquisitions or divestitures that are required to be expensed under generally accepted accounting principles; (11) to exclude the goodwill and intangible asset impairment charges that are required to be recorded under generally accepted accounting principles; (12) to exclude the effect of any other unusual, non-recurring gain or loss or other extraordinary item; and (13) to exclude the effects of the timing of acceptance for review and/or approval of submissions to the U.S. Food and Drug Administration or any other regulatory body. In addition, the Board retains the discretion to reduce or eliminate the compensation or economic benefit due upon attainment of Performance Goals and to define the manner of calculating the Performance Criteria it selects to use for such Performance Period. Partial achievement of the specified criteria may result in the payment or vesting corresponding to the degree of achievement as specified in the Stock Award Agreement or the written terms of a Performance Cash Award.

(pp) "***Performance Period***" means the period of time selected by the Board over which the attainment of one or more Performance Goals will be measured for the purpose of determining a Participant's right to and the payment of a Stock Award or a Performance Cash Award. Performance Periods may be of varying and overlapping duration, at the sole discretion of the Board.

(qq) "***Performance Stock Award***" means a Stock Award granted under the terms and conditions of Section 6(c)(i).

(rr) "***Plan***" means this Sucampo Pharmaceuticals, Inc. 2016 Equity Incentive Plan.

(ss) "***Restricted Stock Award***" means an award of shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(a).

(tt) "***Restricted Stock Award Agreement***" means a written agreement between the Company and a holder of a Restricted Stock Award evidencing the terms and conditions of a Restricted Stock Award grant. Each Restricted Stock Award Agreement will be subject to the terms and conditions of the Plan.

(uu) "***Restricted Stock Unit Award***" means a right to receive shares of Common Stock which is granted pursuant to the terms and conditions of Section 6(b).

(vv) "***Restricted Stock Unit Award Agreement***" means a written agreement between the Company and a holder of a Restricted Stock Unit Award evidencing the terms and conditions of a Restricted Stock Unit Award grant. Each Restricted Stock Unit Award Agreement will be subject to the terms and conditions of the Plan.

(ww) "***Rule 16b-3***" means Rule 16b-3 promulgated under the Exchange Act or any successor to Rule 16b-3, as in effect from time to time.

(xx) "***Securities Act***" means the Securities Act of 1933, as amended.

(yy) "***Stock Appreciation Right***" or "***SAR***" means a right to receive the appreciation on Common Stock that is granted pursuant to the terms and conditions of Section 5.

(zz) "***Stock Appreciation Right Agreement***" means a written agreement between the Company and a holder of a Stock Appreciation Right evidencing the terms and conditions of a Stock Appreciation Right grant. Each Stock Appreciation Right Agreement will be subject to the terms and conditions of the Plan.

(aaa) "***Stock Award***" means any right to receive Common Stock granted under the Plan, including an Incentive Stock Option, a Nonstatutory Stock Option, a Restricted Stock Award, a Restricted Stock Unit Award, a Stock Appreciation Right, a Performance Stock Award or any Other Stock Award.

(bbb) "***Stock Award Agreement***" means a written agreement between the Company and a Participant evidencing the terms and conditions of a Stock Award grant. Each Stock Award Agreement will be subject to the terms and conditions of the Plan.

(ccc) "***Subsidiary***" means, with respect to the Company, (i) any corporation of which more than 50% of the outstanding capital stock having ordinary voting power to elect a majority of the board of directors of such corporation (irrespective of whether, at the time, stock of any other class or classes of such corporation will have or might have voting power by reason of the happening of any contingency) is at the time, directly or indirectly, Owned by the Company, and (ii) any partnership, limited liability company or other entity in which the Company has a direct or indirect interest (whether in the form of voting or participation in profits or capital contribution) of more than 50%.

(ddd) "***Ten Percent Stockholder***" means a person who Owns (or is deemed to Own pursuant to Section 424(d) of the Code) stock possessing more than 10% of the total combined voting power of all classes of stock of the Company or any Affiliate.

EXHIBIT 31.1

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

I, Peter Greenleaf, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2016

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

EXHIBIT 31.2

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

I, Andrew P. Smith, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: August 3, 2016

/s/ Andrew P. Smith
Andrew P. Smith
(Principal Financial Officer)

EXHIBIT 32.1

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

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

(1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: August 3, 2016

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

EXHIBIT 32.2

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

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

(1) The Quarterly Report on Form 10-Q for the quarter ended June 30, 2016 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: August 3, 2016

/s/ Andrew P. Smith
Andrew P. Smith
(Principal Financial Officer)