**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 March 31, 2014**

**OR**

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

**For the transition period from to**

**Commission File Number: 001-33609**

# SUCAMPO PHARMACEUTICALS, INC.

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

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

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

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

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

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

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

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

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

As of April 25, 2014, there were 44,258,268 shares of the registrant's class A common stock outstanding.

**Sucampo Pharmaceuticals, Inc.**

**Form 10-Q Index**

**PART I — FINANCIAL INFORMATION**

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

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

| | March 31, 2014 | December 31, 2013 |
|---|---|---|
| **ASSETS:** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 56,142 | $ 44,102 |
| Investments, current | 15,534 | 16,003 |
| Product royalties receivable | 13,501 | 14,829 |
| Unbilled accounts receivable | 2 | 1 |
| Accounts receivable, net | 4,441 | 5,407 |
| Prepaid and income taxes receivable | - | 9 |
| Deferred tax assets, current | 2,148 | 2,028 |
| Deferred charge, current | 673 | 673 |
| Restricted cash, current | 26,115 | 26,115 |
| Inventory | 455 | 209 |
| Prepaid expenses and other current assets | 3,618 | 3,977 |
| Total current assets | 122,629 | 113,353 |
| Investments, non-current | 5,716 | 7,219 |
| Property and equipment, net | 1,084 | 1,156 |
| Intangible assets, net | 6,194 | 6,438 |
| Deferred tax assets, non-current | 1,314 | 1,212 |
| Deferred charge, non-current | 4,372 | 4,540 |
| Restricted cash, non-current | 2,481 | 2,471 |
| Other assets | 455 | 584 |
| Total assets | $ 144,245 | $ 136,973 |
| **LIABILITIES AND STOCKHOLDERS' EQUITY:** | | |
| Current liabilities: | | |
| Accounts payable | $ 5,988 | $ 7,614 |
| Accrued expenses | 6,004 | 5,682 |
| Deferred revenue, current | 1,617 | 1,365 |
| Income tax payable | 694 | 701 |
| Notes payable, current | 27,348 | 26,892 |
| Other current liabilities | 1,922 | 358 |
| Total current liabilities | 43,573 | 42,612 |
| Notes payable, non-current | 25,819 | 25,828 |
| Deferred revenue, non-current | 5,998 | 6,169 |
| Deferred tax liability, non-current | 1,853 | 2,066 |
| Other liabilities | 1,596 | 2,150 |
| Total liabilities | 78,839 | 78,825 |
| Commitments and contingencies (Note 7) | | |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; 5,000,000 shares authorized at March 31, 2014 and December 31, 2013; no shares issued and outstanding at March 31, 2014 and December 31, 2013 | - | - |
| Class A common stock, $0.01 par value; 270,000,000 shares authorized at March 31, 2014 and December 31, 2013; 44,085,203 and 43,315,749 shares issued and outstanding at March 31, 2014 and December 31, 2013, respectively | 440 | 432 |
| Class B common stock, $0.01 par value; 75,000,000 shares authorized at March 31, 2014 and December 31, 2013; no shares issued and outstanding at March 31, 2014 and December 31, 2013 | - | - |
| Additional paid-in capital | 78,795 | 72,109 |
| Accumulated other comprehensive income | 15,490 | 15,601 |
| Treasury stock, at cost; 524,792 and 524,792 shares | (2,313) | (2,313) |
| Accumulated deficit | (27,006) | (27,681) |
| Total stockholders' equity | 65,406 | 58,148 |
| Total liabilities and stockholders' equity | $ 144,245 | $ 136,973 |

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 of U.S. dollars, except per share data)

| | Three Months Ended March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Revenues: | | |
| Research and development revenue | $ 1,784 | $ 2,800 |
| Product royalty revenue | 13,501 | 11,677 |
| Product sales revenue | 6,312 | 2,217 |
| Co-promotion revenue | 362 | 61 |
| Contract and collaboration revenue | 202 | 164 |
| Total revenues | 22,161 | 16,919 |
| | | |
| Costs and expenses: | | |
| Costs of goods sold | 3,517 | 1,282 |
| Research and development | 5,135 | 5,629 |
| General and administrative | 7,257 | 7,227 |
| Selling and marketing | 3,647 | 5,389 |
| Total costs and expenses | 19,556 | 19,527 |
| | | |
| Income (loss) from operations | 2,605 | (2,608) |
| Non-operating income (expense): | | |
| Interest income | 57 | 19 |
| Interest expense | (400) | (495) |
| Other income (expense), net | (323) | 1,081 |
| Total non-operating income (expense), net | (666) | 605 |
| | | |
| Income (loss) before income taxes | 1,939 | (2,003) |
| Income tax provision | (1,264) | (1,142) |
| Net income (loss) | $ 675 | $ (3,145) |
| | | |
| Net income (loss) per share: | | |
| Basic | $ 0.02 | $ (0.08) |
| Diluted | $ 0.02 | $ (0.08) |
| Weighted average common shares outstanding: | | |
| Basic | 43,401 | 41,461 |
| Diluted | 44,264 | 41,461 |
| | | |
| Comprehensive income (loss): | | |
| Net income (loss) | $ 675 | $ (3,145) |
| Other comprehensive income (loss): | | |
| Unrealized loss on investments, net of tax effect | 7 | (14) |
| Foreign currency translation | (118) | 51 |
| Comprehensive income (loss) | $ 564 | $ (3,108) |

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

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

| | Class A Common Stock | | Additional Paid-In | Accumulated Other Comprehensive | Treasury Stock | | Retained Earnings (Accumulated | Total Stockholders' |
|---|---|---|---|---|---|---|---|---|
| | Shares | Amount | Capital | Income (Loss) | Shares | Amount | Deficit) | Equity |
| Balance at December 31, 2013 | 43,315,749 | $ 432 | $ 72,109 | $ 15,601 | 524,792 | $ (2,313) | $ (27,681) | $ 58,148 |
| Employee stock option expense | - | - | 228 | - | - | - | - | 228 |
| Stock issued under exercise of stock options | 230,140 | 2 | 1,114 | - | - | - | - | 1,116 |
| Stock issued under employee stock purchase plan | 793 | - | 5 | - | - | - | - | 5 |
| Stock issued under "at-the-market" offering | 538,521 | 6 | 5,321 | - | - | - | - | 5,327 |
| Foreign currency translation | - | - | - | (118) | - | - | - | (118) |
| Unrealized loss on investments, net of tax effect | - | - | - | 7 | - | - | - | 7 |
| Windfall tax benefit from stock-based compensation | - | - | 18 | - | - | - | - | 18 |
| Net income | - | - | - | - | - | - | 675 | 675 |
| Balance at March 31, 2014 | 44,085,203 | $ 440 | $ 78,795 | $ 15,490 | 524,792 | $ (2,313) | $ (27,006) | $ 65,406 |

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | **2014** | **2013** |
| Cash flows from operating activities: | | |
| Net income (loss) | $ 675 | $ (3,145) |
| Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 361 | 381 |
| Deferred tax provision | (395) | 114 |
| Deferred charge | 168 | 168 |
| Stock-based compensation | 228 | 412 |
| Amortization of premiums on investments | 26 | 27 |
| Unrealized currency translations | 210 | 63 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 965 | (481) |
| Unbilled accounts receivable | (2) | 567 |
| Product royalties receivable | 1,328 | 2,498 |
| Inventory | (245) | (3,918) |
| Prepaid and income taxes receivable and payable, net | (5) | 809 |
| Accounts payable | (1,630) | 3,856 |
| Accrued expenses | 303 | (2,629) |
| Deferred revenue | 48 | (2,947) |
| Accrued interest payable | 359 | 460 |
| Other assets and liabilities, net | 1,167 | (811) |
| Net cash provided by (used in) operating activities | 3,561 | (4,576) |
| Cash flows from investing activities: | | |
| Purchases of investments | - | (1,699) |
| Proceeds from the sales of investments | 1,700 | - |
| Maturities of investments | 250 | 3,360 |
| Purchases of property and equipment | (41) | (120) |
| Changes in restricted cash | - | (9,561) |
| Net cash provided by (used in) investing activities | 1,909 | (8,020) |
| Cash flows from financing activities: | | |
| Proceeds from notes payable | - | 10,600 |
| Proceeds from exercise of stock options | 1,116 | - |
| Proceeds from employee stock purchase plan | 5 | 5 |
| Proceeds from "at-the-market" stock issuance | 5,327 | - |
| Purchase of treasury stock | - | (335) |
| Windfall benefit from stock-based compensation | 18 | - |
| Net cash provided by financing activities | 6,466 | 10,270 |
| Effect of exchange rates on cash and cash equivalents | 104 | (1,053) |
| Net increase (decrease) in cash and cash equivalents | 12,040 | (3,379) |
| Cash and cash equivalents at beginning of period | 44,102 | 52,022 |
| Cash and cash equivalents at end of period | $ 56,142 | $ 48,643 |

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

## 1. Business Organization and Basis of Presentation

***Description of the Business***

Sucampo Pharmaceuticals, Inc., or the Company, is a global biopharmaceutical company focused on innovative research, discovery, development and commercialization of ion channel activators known as prostones. The Company has pioneered the field of prostones. Prostones are naturally occurring fatty acid metabolites which originally thought to be biologically inactive. Prostones have emerged as a promising compound class with physiological activities that can be targeted for the treatment of unmet or underserved medical needs.

We believe that prostones act locally to restore normal function in cells and tissues, and because they are quickly metabolized, their pharmacologic activity can be targeted to specific organs and tissues. Prostones possess a unique mechanism of action as highly potent and selective ion channel activators based on in vitro studies. Ion channels are integral parts of cell membranes that regulate the flow of specific ions into and out of cells. This regulation is key to the functioning of cells, such as metabolic processes and survival. As such, prostones are physiological mediators that may have a role in the restoration of cellular homeostasis and tissue regeneration.

The Company's prostone-based compounds target the ClC-2 (chloride) and big potassium, or BK, ion channels. Because these ion channels play an important role in physiology, targeted dosing of prostones may have broad applicability in many disease states in different organ systems. The Company has developed synthetic analogs of the naturally occurring prostones, which have been optimized to be more potent, selective, and stable, thus enabling their use as drugs. Prostones are very selective for their molecular targets, and the approved prostone-based compounds are well-tolerated and generally safe.

The Company is focused on developing prostones to treat gastrointestinal, ophthalmic, neurologic, and oncology-based inflammatory disorders, and is also considering other potential therapeutic applications of the Company's drug technologies.

The Company currently generates revenue mainly from product royalties, development milestone payments, clinical development activities and product sales. The Company expects to continue to incur significant expenses for the next several years as the Company continues its research and development activities, seeks regulatory approvals and additional indications for AMITIZA® (lubiprostone), RESCULA® (unoprostone isopropyl) and other compounds, and commercializes the Company's approved products on a global basis.

To date, two prostone compounds – lubiprostone and unoprostone isopropyl - have received marketing approval under the brand names, AMITIZA and RESCULA, globally.

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

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

In Switzerland, the Company is commercializing AMITIZA for CIC. The Company announced in February 2014 that the Bundesamt fur Gesundheit revised several reimbursement limitations with which AMITIZA was first approved for reimbursement and inclusion in the Specialitätenliste to allow all Swiss physicians to prescribe AMITIZA to patients who have failed previous treatments with at least two laxatives over a nine month period. The Company filed for the OIC indication in Switzerland and anticipates a decision in the first half of 2014.

In the United Kingdom, the Company is commercializing AMITIZA for CIC. In the first quarter of 2014, the submission for the National Institute for Health and Care Excellence endorsement for CIC was completed. The Company filed for the OIC indication in the United Kingdom and in March 2014, the Company received notification from Medicines and Healthcare Products Regulatory Agency that the application was not approved. The Company is exploring all available options for a path forward. The Company is also considering seeking approval for AMITIZA in other European Union countries for CIC following the Mutual Recognition Procedure. Since February 2012, AMITIZA has also been available through a Named Patient Program throughout the European Union, Iceland and Norway.

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

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

*Lubiprostone for a Reformulation and Pediatric Functional Constipation*

The new drug application for the liquid formulation of lubiprostone will not be filed in the second half of 2014 as the U.S. Food and Drug Administration will require additional data to characterize pharmacokinetics of the new formulation and a pharmacodynamics, pharmacokinetics, and tolerability study of the reformulation showed directional improvement, but not statistical significance, in spontaneous bowel movement frequency. Based on the findings, Takeda Pharmaceutical Company Limited, or Takeda, has agreed to fund 100% of the costs for the additional reformulation work for lubiprostone. As part of the pediatric development program, in March 2014, the Company's first patient enrolled into a follow-on, open-label safety extension study of a global phase 3 clinical trial of lubiprostone in patients 6 to 17 years of age for pediatric functional constipation. This is the first of two open-label extension studies. One of the pediatric trials may use a new age appropriate formulation of lubiprostone.

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

Two ion channel activators, in both the intravenous, or IV, and oral, or PO, forms, are in clinical development for the treatment of lumbar spinal stenosis, or LSS. The Company initiated a phase 1b study to evaluate the safety and pharmacokinetic of an of the orally administered ion channel activator. This compound is in clinical development for LSS. This trial is expected to conclude in the third quarter of 2014. The Company plans to conduct an additional phase 2a study in the second half of 2014 to evaluate the clinical effectiveness of the intravenous ion channel activator with LSS.

*Cobiprostone as an Oral Spray for Oral Mucositis*

The Company completed a phase 1b clinical trial for the target indication of prevention and/or treatment of oral mucositis. The results of the phase 1b showed that cobiprostone was well-tolerated and revealed low systemic exposure.

***Basis of Presentation***

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

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

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

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

The Company has revised the March 31, 2013 condensed consolidated statements of operations and comprehensive income (loss) to correct an error in the improper presentation of gross profit. As a result of this revision, gross profit will be removed as a sub-total and cost of goods sold will be disclosed as an operating cost under the heading “Costs and expenses”. Gross profit was presented on the condensed consolidated statements of operations and comprehensive income (loss) beginning in the period ended December 31, 2012 and for periods ended March 31, June 30 and September 30, 2013.

In addition, the Company has revised the March 31, 2013 condensed consolidated statements of cash flows to correct an error in the classification of foreign exchange gains and losses in net cash used in operating activities, investing activities and the effect of exchange rates on cash and cash equivalents. The error in classification affects the year ended December 31, 2013 and the periods ended September 30, 2013, June 30, 2013 and March 31, 2013.

The revisions had no impact on income from operations or net income and were determined to not be material to any previously issued financial statements. Accordingly, the Company will revise previously reported interim and annual periods in future filings. The following revisions have been made to the previously reported March 31, 2013 balances:

| | Presentation as of March 31, 2013 | | |
|---|---|---|---|
| **(In thousands)** | **As Previously Reported** | **Revision Adjustment** | **As Revised** |
| Gross profit | $ 15,637 | $ (15,637) | $ - |
| Total costs and expenses | (18,245) | (1,282) | (19,527) |
| | | | |
| Net cash provided by (used in) operating activities | (5,639) | 1,063 | (4,576) |
| Net cash provided by (used in) investing activities | (7,946) | (74) | (8,020) |
| Effect of exchange rates on cash and cash equivalents | (64) | (989) | (1,053) |

## 2. Summary of Significant Accounting Policies

***Restricted Cash***

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

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

Financial instruments that potentially subject the Company to significant concentrations of credit risk consist of cash and cash equivalents, restricted cash, investments and receivables. The Company places its cash, cash equivalents and restricted cash with highly rated financial institutions and invests its excess cash in highly rated investments. As of March 31, 2014 and December 31, 2013, approximately $20.7 million, or 19.5%, and $16.4 million, or 17.1%, respectively, of the Company’s cash, cash equivalents, restricted cash and investments were issued or insured by the United States government or United States government agencies. The Company has not experienced any losses on these accounts related to amounts in excess of insured limits.

Revenues from Takeda, an unrelated party, accounted for 71.2% and 86.8% of the Company’s total revenues for the three months ended March 31, 2014 and 2013, respectively. Accounts receivable, unbilled accounts receivable and product royalties receivable from Takeda accounted for 85.4% and 88.2% of the Company’s total accounts receivable, unbilled accounts receivable and product royalties receivable at March 31, 2014 and December 31, 2013, respectively. Revenues from another unrelated party, Abbott, accounted for 27.5% and 13.1% of the Company’s total revenues for the three months ended March 31, 2014 and 2013. The Company depends significantly upon collaborations with Takeda and Abbott, and its revenues may be impacted if these relationships are disrupted.

***Fair Value of Financial Instruments***

The carrying amounts of the Company's financial instruments approximate their fair values based on their short maturities, independent valuations or internal assessments. The Company's financial instruments include cash and cash equivalents, restricted cash, current and non-current investments, receivables, accounts payable and accrued expenses. The carrying amounts of the notes payable at March 31, 2014 and December 31, 2013 were less than the estimated fair values (see Note 9 below). The Company's debt is subject to the fair value disclosure requirements as discussed in Note 4 below, and is classified as a Level 2 security.

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

The Company has established an allowance for doubtful accounts of approximately $440,000 at both March 31, 2014 and December 31, 2013, related to certain disputed Takeda invoices.

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

The computation of net income (loss) per share for the three months ended March 31, 2014 and 2013 is shown below:

| | Three Months Ended March 31, | |
|---|---|---|
| **(in thousands, except per share data)** | **2014** | **2013** |
| Basic net income (loss) per share: | | |
| Net income (loss) | $ 675 | $ (3,145) |
| Weighted average class A common shares outstanding | 43,401 | 41,461 |
| Basic net income (loss) per share | $ 0.02 | $ (0.08) |
| Diluted net income (loss) per share: | | |
| Net income (loss) | $ 675 | $ (3,145) |
| Weighted average class A common shares outstanding | 43,401 | 41,461 |
| Assumed exercise of stock options under the treasury stock method | 863 | - |
| | 44,264 | 41,461 |
| Diluted net income (loss) per share | $ 0.02 | $ (0.08) |

The potentially dilutive securities used in the calculations of diluted net income per share are as follows:

| | March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Employee stock options | 2,663 | - |
| Non-employee stock options | 343 | - |

The following securities were excluded from the computation of diluted net income (loss) per share as their effect would be anti-dilutive:

| | March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Employee stock options | 342 | 3,422 |
| Non-employee stock options | - | 450 |

## 4. Current and Non-Current Investments

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

| | March 31, 2014 | | | |
|---|---|---|---|---|
| **(In thousands)** | **Cost** | **Unrealized Gains** | **Unrealized Losses** | **Fair Value** |
| *Current:* | | | | |
| U.S. government securities | $ 1,000 | $ - | $ - | $ 1,000 |
| U.S. government agencies | 10,279 | 4 | - | 10,283 |
| Certificates of deposits | 3,750 | - | - | 3,750 |
| Corporate bonds | 501 | - | - | 501 |
| Total | $ 15,530 | $ 4 | $ - | $ 15,534 |
| | | | | |
| *Non-current:* | | | | |
| U.S. government agencies | $ 2,958 | $ 1 | $ (2) | $ 2,957 |
| Certificates of deposit | 2,250 | - | - | 2,250 |
| Corporate bonds | 510 | - | (1) | 509 |
| Total | $ 5,718 | $ 1 | $ (3) | $ 5,716 |

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

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

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

The Company's assets measured at fair value on a recurring basis, including cash equivalents, which are subject to the fair value disclosure requirements, are as follows:

| | Fair Value Measurements at Reporting Date Using | | | |
|---|---|---|---|---|
| **(In thousands)** | **Quoted Prices in Active Markets for Identical Assets (Level 1)** | **Significant Other Observable Inputs (Level 2)** | **Significant Unobservable Inputs (Level 3)** | **Total** |
| U.S. government securities | $ - | $ 1,000 | $ - | $ 1,000 |
| U.S. government agencies | - | 13,240 | - | 13,240 |
| U.S. commercial paper | - | 8,824 | - | 8,824 |
| Certificates of deposit | - | 6,000 | - | 6,000 |
| Corporate bonds | - | 2,760 | - | 2,760 |
| Money market funds | 8,098 | - | - | 8,098 |
| Total assets measured at fair value | $ 8,098 | $ 31,824 | $ - | $ 39,922 |

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

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

## 5. Intangible Assets

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

Under the terms of the 2009 R-Tech Agreement, the Company has made an upfront and milestone payments of $3.5 million and may be required to pay up to $5.0 million in additional milestone payments based on the achievement of specified development and commercialization goals. The Company allocated the acquisition cost between an intangible asset of $3.4 million and a non-current prepaid inventory of $85,000. The $3.4 million intangible asset is included in intangible assets, net in the accompanying Condensed Consolidated Balance Sheets as of March 31, 2014 and December 31, 2013. The non-current prepaid inventory of $85,000 was written-off during the year ended December 31, 2013. The cost of the intangible asset is being amortized over the 10-year life of the 2009 R-Tech Agreement, which the Company believes approximates the useful life of the underlying rights and data. Amortization expense was approximately $85,000 for each of the three months ended March 31, 2014 and 2013. The annual amortization expense will be approximately $341,000 through April 2019. The unamortized amount included in intangible assets was $1.7 million and $1.8 million at March 31, 2014 and December 31, 2013, respectively

On March 22, 2011, the Company entered into a license agreement with R-Tech for unoprostone isopropyl, or the 2011 R-Tech Agreement, expanding the Company's development and commercialization rights as well as its territories beyond their previously agreed territory of the United States and Canada to the rest of the world, with the exception of Japan, Korea, Taiwan and the People's Republic of China. The Company is now evaluating the opportunities to obtain an appropriate label in the E.U. and other European countries, and the timing of seeking reauthorization in those countries to commercialize unoprostone isopropyl.

Pursuant to the 2011 R-Tech Agreement, the Company has made payments to R-Tech of $6.0 million, which is reflected in intangible assets, net in the accompanying Condensed Consolidated Balance Sheets, and may be required to pay up to $100.0 million in additional milestone payments to R-Tech based on the achievement of specified development and commercialization goals. The Company will be responsible for all development, regulatory, and commercialization activities. The Company is amortizing the $6.0 million over the 10-year life of the 2011 R-Tech Agreement, which the Company believes approximates the useful life of the underlying rights and data. Amortization expense was approximately $153,000 for each of the three months ended March 31, 2014 and 2013. The annual amortization expense will be approximately $613,000 through March 2021. The unamortized amount included in intangible assets was $4.3 million and $4.4 million at March 31, 2014 and December 31, 2013, respectively.

The Company reviews intangible assets for impairment when events or changes in circumstances indicate that the carrying value of its intangible assets may not be recoverable. Impairment in the carrying value of an intangible asset is recognized whenever anticipated future undiscounted cash flows from an intangible asset are estimated to be less than its carrying value. There have been no impairment charges recorded during the three months ended March 31, 2014 and 2013 since there have been no indicators of impairment during those periods. If the Company's actual results, or the plans and estimates used in future impairment analyses, are lower than the original estimates used to assess the recoverability of these assets, the Company could incur future impairment charges.

## 6. Accrued Expenses

Accrued expenses consist of the following:

| (In thousands) | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Research and development costs | $ 2,146 | $ 1,775 |
| Employee compensation | 1,380 | 2,531 |
| Selling and marketing costs | 252 | 584 |
| Legal service fees | 347 | 14 |
| Other accrued expenses | 1,879 | 778 |
| Total | $ 6,004 | $ 5,682 |

## 7. Commitments

***Operating Leases***

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

| (In thousands of U.S. dollars) | March 31, 2014 |
|---|---|
| 2014 | $ 1,077 |
| 2015 | 1,272 |
| 2016 | 1,303 |
| 2017 | 358 |
| 2018 | 217 |
| Total minimum lease payments | $ 4,227 |

Rent expense for all operating leases was approximately $454,000 and $351,000 for the three months ended March 31, 2014 and 2013, respectively.

***Research and Development Costs***

The Company routinely enters into agreements with third-party contract research organizations to oversee clinical research and development studies provided on an outsourced basis, and to assist in other research and development activities. The Company generally is not contractually obligated to pay the third party if the service or reports are not provided. Total future estimated costs under these agreements as of March 31, 2014 were approximately $7.4 million.

***Numab Commitment***

In the event that Numab defaults under its loan with Zurcher Kantonalbank, the Company's maximum contingent liability under the Numab Agreement (as defined in Note 10) is $2.5 million. As of March 31, 2014, the potential amount of payments in the event of Numab's default was $2.3 million. At March 31, 2014 the Company had a recorded liability of $810,000 in collateral callable to meet a potential loan default by Numab.

## 8. Related Party Transactions

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

The Company recorded the following expenses under all of its agreements with R-Tech, including the 2009 R-Tech Agreement, the 2011 R-Tech Agreement and various exclusive supply agreements with R-Tech:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Clinical supplies | $ 101 | $ 194 |
| Other research and development services | 10 | 42 |
| Commercial supplies | 3,547 | 1,837 |
| | $ 3,658 | $ 2,073 |

The following table summarizes the amounts included in deferred revenue resulting from the deferral of upfront payments relating to the exclusive supply agreements with R-Tech:

| **(In thousands)** | **March 31, 2014** | **December 31, 2013** |
|---|---|---|
| Deferred revenue, current | $ 164 | $ 477 |
| Deferred revenue, non-current | 5,092 | 4,925 |
| | $ 5,256 | $ 5,402 |

The Company recognized approximately $164,000 and $163,000 of revenue relating to its agreements with R-Tech for the three months ended March 31, 2014 and 2013, respectively, which was recorded as contract and collaboration revenue in the accompanying Condensed Consolidated Statements of Operations and Comprehensive Income (Loss).

NittoMedic has received a letter from the FDA dated April 23, 2014 stating that its investigation of the NittoMedic facility has been closed and an establishment inspection report has been issued. Also, FDA has advised us that its review of the sNDA is proceeding on schedule with a decision expected in the 2nd quarter of 2014.

Drs. Ryuji Ueno and Sachiko Kuno are married to each other and, directly or indirectly, own a majority of the stock of R-Tech. Drs. Ueno and Kuno are also controlling stockholders of the Company. Dr. Ueno was the Company's Chief Executive Officer and Chairman of the Board and member through March 3, 2014, and was our Chief Scientific Officer through March 18, 2014. On March 18, 2014, Dr. Ueno resigned from the Company and terminated the consulting agreement as previously announced on February 12, 2014.

## 9. Notes Payable

In November 2010, the Company entered into a secured term loan agreement with the Tokyo-Mitsubishi Bank for ¥1,000,000,000, approximating $11.6 million as of the closing date. The loan renews every November. The interest rate at March 31, 2014 was 1.22%. The outstanding loan balances included in the accompanying Condensed Consolidated Balance Sheets were $9.7 million and $9.5 million as of March 31, 2014 and December 31, 2013, respectively. A deposit of $14.9 million with the Tokyo-Mitsubishi Bank collateralizing the loan bears annual interest of 0.25%.

In March 2013, the Company entered into a secured term loan agreement with the Mizuho Bank for ¥1,000,000,000, approximating $10.6 million as of the closing date. The interest rate at March 31, 2014 was 0.46%. The loan renews every March. The outstanding loan balances included in the accompanying Condensed Consolidated Balance Sheets were $9.7 million and $9.5 million as of March 31, 2014 and December 31, 2013, respectively. A deposit of $11.0 million with the Mizuho Bank collateralizing the loan bears annual interest of 0.30%.

In connection with the SAG acquisition in 2010, the Company issued a subordinated unsecured promissory note to each of the Ueno Trust and Kuno Trust. The interest rate beginning December 1, 2013 is 4.3%.

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

Notes payable at their fair value and carrying value consist of the following:

| | Fair Value | | Carrying Value | |
|---|---|---|---|---|
| (In thousands) | March 31, 2014 | December 31, 2013 | March 31, 2014 | December 31, 2013 |
| Loan agreements | $ 19,455 | $ 19,008 | $ 19,455 | $ 19,008 |
| Promissory notes, Sellers of SAG | 34,889 | 34,889 | 33,712 | 33,712 |
| | $ 54,344 | $ 53,897 | $ 53,167 | $ 52,720 |
| | | | | |
| Notes payable, current | | | $ 27,348 | $ 26,892 |
| Notes payable, non-current | | | 25,819 | 25,828 |
| | | | $ 53,167 | $ 52,720 |

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

## 10. Collaboration and License Agreements

***Abbott Agreement***

The following table summarizes the cash streams and related revenue recognized or deferred under the Abbott Agreements for the three months ended March 31, 2014:

| (In thousands) | Amount Deferred at December 31, 2013 | Cash Received for the Three Months Ended March 31, 2014 | Revenue Recognized for the Three Months Ended March 31, 2014 | Change in Accounts Receivable for the Three Months Ended March 31, 2014 | Foreign Currency Effects for the Three Months Ended March 31, 2014 | Amount Deferred at March 31, 2014 |
|---|---|---|---|---|---|---|
| *Collaboration revenue:* | | | | | | |
| Up-front payment associated with the Company's obligation to participate in joint committees | $ 555 | $ - | $ 10 | $ - | $ 13 | $ 558 |
| | | | | | | |
| *Product sales revenue:* | $ - | $ 5,933 | $ 6,077 | $ 196 | $ (52) | $ - |

***Takeda agreements***

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

The following table summarizes the cash streams and related revenue recognized or deferred under the Takeda Agreements for the three months ended March 31, 2014:

| (In thousands) | Amount Deferred at December 31, 2013 | Cash Received for the Three Months Ended March 31, 2014 | Revenue Recognized for the Three Months Ended March 31, 2014 | Change in Accounts Receivable for the Three Months Ended March 31, 2014* | Foreign Currency Effects for the Three Months Ended March 31, 2014 | Amount Deferred at March 31, 2014 |
|---|---|---|---|---|---|---|
| *Collaboration revenue:* | | | | | | |
| Up-front payment associated with the Company's obligation to participate in joint committees | $ 1,029 | $ - | $ 37 | $ - | $ - | $ 992 |
| *Research and development revenue:* | | | | | | |
| Up-front payment - remainder | $ - | $ - | $ - | $ - | $ - | $ - |
| Development milestones | - | - | - | - | - | - |
| Reimbursement of research and development expenses | 419 | 2,240 | 1,784 | 763 | - | 1,638 |
| Total | $ 419 | $ 2,240 | $ 1,784 | $ 763 | $ - | $ 1,638 |
| *Product royalty revenue* | $ - | $ 14,829 | $ 13,501 | $ (1,328) | $ - | - |
| *Co-promotion revenue* | $ - | $ - | $ 362 | $ 362 | $ - | - |

* Includes billed and unbilled accounts receivable.

***Numab AG***

In September 2011, the Company entered into a Loan Guarantee and Development Agreement, or the Numab Agreement, with Numab. Until September 2013, Numab was considered a related party as a result of an ownership interest in Numab by one of the Company's former executive officers, who resigned in September 2013. Under the terms of the Numab Agreement, 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, the collateral amount was reduced to CHF 2.2 million, or approximately $2.5 million as of March 31, 2014.

As of March 31, 2014, the collateral of CHF 2.2 million has been deposited by the Company, and Numab has utilized CHF 2.0 million of its loan facility, or approximately $2.3 million. During 2012, the Company considered it probable that the success criteria for the first target would be met and made full provision for the success fee. This fee was paid during the first quarter of 2013. In the first quarter of 2013, the Company decided to no longer pursue further development of the target. In October 2013, Numab and the Company entered into a termination arrangement which may result in continued development by Numab. After successful development by Numab and an agreement with a third party investor, Numab and the Company will enter into a license agreement on commercially reasonable terms. At March 31, 2014 and December 31, 2013, the Company had a recorded liability of $810,000 and $663,000, respectively, in collateral callable to meet a potential loan default by Numab.

## 11. Stock Option Plans

A summary of the employee stock option activity for the three months ended March 31, 2014 under the Company's Amended and Restated 2001 Stock Incentive Plan, or the 2001 Stock Incentive Plan, is presented below:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2013 | 146,200 | $ 10.00 | | |
| Options outstanding, March 31, 2014 | 146,200 | 10.00 | 2.09 | $ - |
| Options exercisable, March 31, 2014 | 146,200 | 10.00 | 2.09 | $ - |

A summary of the employee stock option activity for the three months ended March 31, 2014 under the Company's Amended and Restated 2006 Stock Incentive Plan is presented below:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2013 | 2,513,063 | $ 5.03 | | |
| Options granted | 600,000 | 8.49 | | |
| Options exercised | (162,640) | 4.43 | | |
| Options forfeited | (90,000) | 4.42 | | |
| Options expired | (1,716) | 4.42 | | |
| Options outstanding, March 31, 2014 | 2,858,707 | 5.81 | 7.54 | $ 5,395,261 |
| Options exercisable, March 31, 2014 | 1,045,999 | 5.63 | 6.35 | $ 2,283,506 |

The weighted average grant date fair value of options granted during the three months ended March 31, 2014 and the year ended December 31, 2013 was $8.49 and $7.36, respectively. As of March 31, 2014, approximately $740,000 of total unrecognized compensation costs, net of estimated forfeitures, related to non-vested awards are expected to be recognized over a weighted average period of 1.61 years.

A summary of the non-employee stock option activity for the three months ended March 31, 2014 under the Company's 2001 Stock Incentive Plan is presented below:

| | Shares | Weighted Average Exercise Price Per Share | Weighted Average Remaining Contractual Term (Years) | Aggregate Intrinsic Value |
|---|---|---|---|---|
| Options outstanding, December 31, 2013 | 410,000 | $ 5.85 | | |
| Options exercised | (67,500) | 5.85 | | |
| Options outstanding, March 31, 2014 | 342,500 | 5.85 | 1.08 | $ 445,250 |
| Options exercisable, March 31, 2014 | 342,500 | 5.85 | 1.08 | $ 445,250 |

***Employee Stock Purchase Plan***

Under the Company's 2006 Employee Stock Purchase Plan, the Company received $5,386 and $4,871 upon the employees' purchase of 793 and 784 shares of class A common stock during the three months ended March 31, 2014 and 2013, respectively.

## 12. Income Taxes

For the three months ended March 31, 2014 and 2013, the Company recorded tax provisions of $1.3 million and $1.1 million, respectively. The tax provision for the three months ended March 31, 2014 primarily pertained to pre-tax profits generated by the Company's U.S subsidiary and the Company's U.S. and Japanese subsidiaries for the three months ended March 31, 2013.

*Uncertain Tax Positions*

The Company had an outstanding non-current income tax liability of approximately $1.1 million, including interest, for uncertain tax positions as of March 31, 2014. The amount represented the aggregate tax effect of differences between tax return positions and the amounts otherwise recognized in the Company's Condensed Consolidated Financial Statements. As of March 31, 2014, $1.1 million is reflected as other liabilities in the accompanying Condensed Consolidated Balance Sheets. The liability for uncertain tax positions as of March 31, 2014 mainly pertained to the Company's interpretation of nexus in certain states related to revenue sourcing for state income tax purposes. During the three months ended March 31, 2014, the liability for income taxes has increased approximately $373,000. This increase in the liability is primarily related to the filing positions taken in various jurisdictions related to income tax nexus.

**13. Segment Reporting**

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

| (In thousands) | Americas | Europe | Asia | Consolidated |
|---|---|---|---|---|
| **Three Months Ended March 31, 2014** | | | | |
| Research and development revenue | $ 1,784 | $ - | $ - | $ 1,784 |
| Product royalty revenue | 13,501 | - | - | 13,501 |
| Product sales revenue | 158 | 56 | 6,098 | 6,312 |
| Co-promotion revenue | 362 | - | - | 362 |
| Contract and collaboration revenue | 142 | 50 | 10 | 202 |
| Total revenues | 15,947 | 106 | 6,108 | 22,161 |
| Cost of goods sold | 150 | 25 | 3,342 | 3,517 |
| Research and development expenses | 2,589 | 1,412 | 1,134 | 5,135 |
| Depreciation and amortization | 188 | 166 | 7 | 361 |
| Other operating expenses | 7,841 | 2,234 | 468 | 10,543 |
| Income (loss) from operations | 5,179 | (3,731) | 1,157 | 2,605 |
| Interest income | 21 | 3 | 33 | 57 |
| Interest expense | (359) | - | (41) | (400) |
| Other non-operating expense, net | (3) | 48 | (368) | (323) |
| Income (loss) before income taxes | $ 4,838 | $ (3,680) | $ 781 | $ 1,939 |
| Capital expenditures | $ 41 | $ - | $ - | $ 41 |
| | | | | |
| **Three Months Ended March 31, 2013** | | | | |
| Research and development revenue | $ 2,800 | $ - | $ - | $ 2,800 |
| Product royalty revenue | 11,677 | - | - | 11,677 |
| Product sales revenue | 1 | 8 | 2,208 | 2,217 |
| Co-promotion revenue | 61 | - | - | 61 |
| Contract and collaboration revenue | 141 | 12 | 11 | 164 |
| Total revenues | 14,680 | 20 | 2,219 | 16,919 |
| Cost of goods sold | 23 | 5 | 1,254 | 1,282 |
| Research and development expenses | 1,282 | 2,671 | 1,676 | 5,629 |
| Depreciation and amortization | 122 | 250 | 9 | 381 |
| Other operating expenses | 10,317 | 598 | 1,320 | 12,235 |
| Income (loss) from operations | 2,936 | (3,504) | (2,040) | (2,608) |
| Interest income | 15 | 4 | - | 19 |
| Interest expense | - | (460) | (35) | (495) |
| Other non-operating expense, net | (16) | (192) | 1,289 | 1,081 |
| Income (loss) before income taxes | $ 2,935 | $ (4,152) | $ (786) | $ (2,003) |
| Capital expenditures | $ 14 | $ 103 | $ 3 | $ 120 |
| | | | | |
| **As of March 31, 2014** | | | | |
| Property and equipment, net | $ 805 | $ 105 | $ 174 | $ 1,084 |
| Identifiable assets, net of intercompany loans and investments | $ 110,787 | $ 17,035 | $ 16,423 | $ 144,245 |
| | | | | |
| **As of December 31, 2013** | | | | |
| Property and equipment, net | $ 869 | $ 112 | $ 175 | $ 1,156 |
| Identifiable assets, net of intercompany loans and investments | $ 95,350 | $ 23,843 | $ 17,780 | $ 136,973 |

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

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

**Overview**

We are a global biopharmaceutical company focused on innovative research, discovery, development and commercialization of proprietary drugs based on ion channel activators known as prostones. We have pioneered the field of prostones. Prostones are naturally occurring fatty acid metabolites. Originally thought to be biologically inactive, prostones have emerged as a promising compound class with physiological activities that can be targeted for the treatment of unmet or underserved medical needs.

We are focused on developing and/or commercializing prostone-based drugs to treat gastrointestinal, ophthalmic, neurologic, and oncology-based inflammatory disorders, and we are also considering other potential therapeutic applications of our drug technologies.

We currently generate revenue mainly from product royalties, development milestone payments, clinical development activities and product sales. 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 AMITIZA® (lubiprostone), RESCULA® (unoprostone isopropyl) and other prostone compounds, commercialize our approved products (as discussed below) on a global basis and protect our intellectual property.

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

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

**Product Pipeline**

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

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

**AMITIZA (lubiprostone)**

***United States***

In the United States, we began co-promoting AMITIZA for opioid-induced constipation, or OIC, in adults with chronic, non-cancer pain in the first quarter of 2014.

***Japan***

In Japan, the two-week limitation on prescriptions, generally applied to all new approvals of products for the first year after NIH reimbursement price approval, was removed in December 2013. AMITIZA is Japan's only prescription medicine for chronic constipation.

***Europe***

In Switzerland, we announced in February 2014 that the Bundesamt fur Gesundheit revised several reimbursement limitations with which AMITIZA was first approved for reimbursement and inclusion in the Specialitätenliste to allow all Swiss physicians to prescribe AMITIZA to patients who have failed previous treatments with at least two laxatives over a nine month period. We filed for the OIC indication in Switzerland and anticipate a decision in the first half of 2014.

In the United Kingdom, the submission for the National Institute for Health and Care Excellence endorsement for chronic idiopathic constipation, or CIC, was completed in the first quarter of 2014.We filed for the OIC indication in the United Kingdom and in March 2014, we received notification from Medicines and Healthcare Products Regulatory Agency, or MHRA, that the application was not approved. We are exploring all available options for a path forward for OIC. We are considering seeking approval for AMITIZA for the CIC indication in other European Union countries following the Mutual Recognition Procedure.

***Other Global Markets***

We and Takeda are currently exploring the commercialization of AMITIZA in Canada and we have met with Health Canada to discuss the best ways to proceed with AMITIZA registration in this market in the near future.

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

**RESCULA (unoprostone isopropyl)**

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

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

**Our Other Clinical Development Programs**

**Lubiprostone**

*Liquid Formulation and Reformulation*

The new drug application for the liquid formulation of lubiprostone will not be filed in the second half of 2014 as the U.S. Food and Drug Administration will require additional data to characterize pharmacokinetics of the new formulation and a pharmacodynamics, pharmacokinetics, and tolerability study of the reformulation showed directional improvement, but not statistical significance, in spontaneous bowel movement frequency. Based on the findings, Takeda has agreed to fund 100% of the costs for the additional reformulation work for lubiprostone.

*Pediatric Functional Constipation*

In March 2014, our first patient enrolled into a follow-on, open-label safety extension study of a global phase 3 clinical trial of lubiprostone in patients 6 to 17 years of age for pediatric functional constipation. This is the first of two open-label extension studies. One of the pediatric trials may use the liquid formulation.

**Intravenous and Oral Ion Channel Activators**

*Lumbar Spinal Stenosis*

Two ion channel activators, in both the intravenous, or IV, and oral, or PO, forms, are in clinical development for the treatment of lumbar spinal stenosis, or LSS. We initiated a phase 1b study to evaluate the safety and pharmacokinetic of an of the orally administered ion channel activator. This compound is in clinical development for LSS. This trial is expected to conclude in the third quarter of 2014. We plan to conduct an additional phase 2a study in the second half of 2014 to evaluate the clinical effectiveness of the intravenous ion channel activator with LSS.

**Cobiprostone**

*Oral Spray for Oral Mucositis*

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

**Results of Operations**

***Revenues***

The following table summarizes our revenues:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Research and development revenue | $ 1,784 | $ 2,800 |
| Product royalty revenue | 13,501 | 11,677 |
| Product sales revenue | 6,312 | 2,217 |
| Co-promotion revenue | 362 | 61 |
| Contract and collaboration revenue | 202 | 164 |
| Total | $ 22,161 | $ 16,919 |

Total revenues were $22.2 million for the three months ended March 31, 2014 compared to $16.9 million for the three months ended March 31, 2013, an increase of $5.2 million or 31.0%.

*Research and development revenue*

Research and development revenue was $1.8 million for the three months ended March 31, 2014 compared to $2.8 million for the three months ended March 31, 2013, a decrease of $1.0 million or 36.3%. The decrease is attributable to higher liquid formulation, pediatric and OIC supplemental new drug application reimbursements in 2013.

*Product royalty revenue*

Product royalty revenue represents royalty revenue earned on net sales of AMITIZA in the United States, as reported to us by our partner, Takeda. Product royalty revenue was $13.5 million for the three months ended March 31, 2014 compared to $11.7 million for the three months ended March 31, 2013, an increase of $1.8 million or 15.6%. The increase was primarily due to higher Takeda reported AMITIZA net sales which were primarily driven by higher prices.

*Product sales revenue*

Product sales revenue represents drug product net sales of AMITIZA in Japan and Switzerland, and drug product net sales of RESCULA in the United States. Product sales revenue was $6.3 million for the three months ended March 31, 2014 compared to $2.2 million for the three months ended March 31, 2013, an increase of $4.1 million or 184.7%. The increase was primarily due to the growth of product sales of AMITIZA in Japan.

*Co-promotion revenue*

Co-promotion revenue represents reimbursements by Takeda of a portion of our co-promotion costs for our specialty sales force. Co-promotion revenue was $362,000 for the three months ended March 31, 2014 compared to $61,000 for the three months ended March 31, 2013, an increase of $301,000 or 493.4%. The increase resulted primarily from our specialty sales force shifting back to co-promoting AMITIZA in the first quarter of 2014, after having shifted away from co-promoting AMITIZA in 2013.

***Research and Development Expenses***

The following table summarizes our research and development expenses:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Direct costs: | | |
| Lubiprostone | $ 2,434 | $ 2,061 |
| Cobiprostone | 577 | 285 |
| Ion channel activators | 123 | 733 |
| Unoprostone isoproypl | 275 | 436 |
| 3608 | 406 | 554 |
| Other | 469 | 693 |
| Total | 4,284 | 4,762 |
| | | |
| Indirect costs | 851 | 867 |
| Total | $ 5,135 | $ 5,629 |

Total research and development expenses for the three months ended March 31, 2014 were $5.1 million compared to $5.6 million for the three months ended March 31, 2013, a decrease of $494,000 or 8.8%. The decrease was primarily due to lower costs associated with our Numab collaboration, liquid formulation and LSS.

***General and Administrative Expenses***

The following table summarizes our general and administrative expenses:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Salaries, benefits and related costs | $ 1,892 | $ 2,144 |
| Legal, consulting and other professional expenses | 3,392 | 2,046 |
| Stock option expense | 173 | 250 |
| Pharmacovigilance | 321 | 1,065 |
| Other expenses | 1,479 | 1,722 |
| Total | $ 7,257 | $ 7,227 |

General and administrative expenses were $7.3 million for the three months ended March 31, 2014, compared to $7.2 million for the three months ended March 31, 2013, an increase of $30,000, or .4%. While total general and administrative expenses were relatively unchanged, we did incur a significant increase in legal fees prosecuting a patent infringement lawsuit filed by us in February 2013, but this increase was offset by reduced pharmacovigilance and other general and administrative expenses.

***Selling and Marketing Expenses***

The following table summarizes our selling and marketing expenses:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Salaries, benefits and related costs | $ 325 | $ 1,949 |
| Consulting and other professional expenses | 1,018 | 901 |
| Stock option expense | 16 | 57 |
| Samples expense | 42 | 770 |
| Other expenses | 2,246 | 1,712 |
| Total | $ 3,647 | $ 5,389 |

Selling and marketing expenses were $3.6 million for the three months ended March 31, 2014, compared to $5.4 million for the three months ended March 31, 2013, a decrease of $1.7 million or 32.3%. The decrease was primarily the result of our decision in the fourth quarter of 2013 to replace our in-house sales force with a lower cost contract sales force that will detail pain specialists for AMITIZA and RESCULA launch costs in first quarter 2013, partially offset by increased commercialization costs in Europe for AMITIZA.

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Interest income | $ 57 | $ 19 |
| Interest expense | (400) | (495) |
| Other income (expense), net | (323) | 1,081 |
| Total | $ (666) | $ 605 |

Interest income was $57,000 for the three months ended March 31, 2014, compared to $19,000 for the three months ended March 31, 2013, an increase of $38,000, or 200.0%.

Interest expense was $400,000 for the three months ended March 31, 2014, compared to $495,000 for the three months ended March 31, 2013, a decrease of $95,000, or 19.2%.

Other expense was $323,000 for the three months ended March 31, 2014, compared to other income of $1.1 million for the three months ended March 31, 2013, a decrease of $1.4 million, or 129.9%. The majority of the decrease related to the change from unrealized and non-cash foreign exchange gains in the prior year period to unrealized and non-cash foreign exchange losses in the current year period.

***Income Taxes***

We recorded income tax provisions of $1.3 million and $1.1 million for the three months ended March 31, 2014 and 2013, respectively. The tax provisions for the three months ended March 31, 2014 and 2013 primarily related to pre-tax income generated by our United States subsidiary.

**Reportable Geographic Segments**

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

Our Americas segment recorded income before taxes of $4.8 million for the three months ended March 31, 2014 compared to income before taxes of $2.9 million for the three months ended March 31, 2013, an increase of $1.9 million or 64.8%.

Our Europe segment recorded a loss before taxes of $3.7 million for the three months ended March 31, 2014 compared to loss before taxes of $4.2 million for the three months ended March 31, 2013, a decrease of $472,000 or 11.4%.

Our Asia segment recorded income before taxes of $781,000 for the three months ended March 31, 2014 compared to a loss before taxes of $786,000 for the three months ended March 31, 2013, an increase of $1.6 million or 199.4%.

The following table summarizes the financial results and the identifiable assets of our reportable geographic segments:

| (In thousands) | Americas | Europe | Asia | Consolidated |
|---|---|---|---|---|
| **Three Months Ended March 31, 2014** | | | | |
| Total revenues | $ 15,947 | $ 106 | $ 6,108 | $ 22,161 |
| Income (loss) before taxes | 4,838 | (3,680) | 781 | 1,939 |
| | | | | |
| **Three Months Ended March 31, 2013** | | | | |
| Total revenues | $ 14,680 | $ 20 | $ 2,219 | $ 16,919 |
| Income (loss) before taxes | 2,935 | (4,152) | (786) | (2,003) |
| | | | | |
| **Identifiable assets** | | | | |
| As of March 31, 2014 | 110,787 | 17,035 | 16,423 | 144,245 |
| As of December 31, 2013 | 95,350 | 23,843 | 17,780 | 136,973 |

**Financial Condition, Liquidity and Capital Resources**

***Financial Condition***

***Sources of Liquidity***

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

Our cash, cash equivalents, restricted cash and investments consist of the following as of March 31, 2014 and December 31, 2013:

| (In thousands) | March 31, 2014 | December 31, 2013 |
|---|---|---|
| Cash and cash equivalents | $ 56,142 | $ 44,102 |
| Restricted cash, current | 26,115 | 26,115 |
| Restricted cash, non-current | 2,481 | 2,471 |
| Investments, current | 15,534 | 16,003 |
| Investments, non-current | 5,716 | 7,219 |
| Total | $ 105,988 | $ 95,910 |

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

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

As of March 31, 2014, our current investments consisted of U.S. government securities, certificates of deposit, and corporate bonds that mature in one year or less.

***Cash Flows***

The following table summarizes our cash flows:

| | Three Months Ended March 31, | |
|---|---|---|
| **(In thousands)** | **2014** | **2013** |
| Cash provided by (used in): | | |
| Operating activities | $ 3,561 | $ (4,576) |
| Investing activities | 1,909 | (8,020) |
| Financing activities | 6,466 | 10,270 |
| Effect of exchange rates | 104 | (1,053) |
| Net increase (decrease) in cash and cash equivalents | $ 12,040 | $ (3,379) |

***Three months ended March 31, 2014***

Net cash provided by operating activities of $3.6 million for the three months ended March 31, 2014 was primarily driven by decreases in our receivables totaling $2.3 million, net income of $675,000 plus non-cash expenses totaling $598,000, and changes in other assets and liabilities, net of $1.2 million, partially offset by decreases in our payables and accrued expenses totaling $968,000.

Net cash provided by investing activities of $1.9 million for the three months ended March 31, 2014 was primarily the result of the sales and maturities of investments.

Net cash provided by financing activities of $6.5 million for the three months ended March 31, 2014 was realized through the issuance of Class A common stock through the "at-the-market" program and exercised options.

The effect of exchange rates on the cash balances of currencies held in foreign denominations for three months ended March 31, 2014 was an increase of $104,000.

***Three Months Ended March 31, 2013***

Net cash used in operating activities was $4.6 million for the three months ended March 31, 2013. This reflected a net loss of $3.1 million as well as changes in other operating assets and liabilities.

Net cash used in investing activities was $8.0 million for the three months ended March 31, 2013. This primarily reflected an increase in restricted cash associated with collateral pledged to support loan agreements, partially offset by our proceeds from the sales and maturing of investments.

Net cash provided by financing activities was $10.3 million for the three months ended March 31, 2013. This primarily reflected proceeds from a loan agreement with the Mizuho Bank, partially offset by purchases under our stock repurchase program.

The effect of exchange rates on the cash balances of currencies held in foreign denominations for three months ended March 31, 2013 was a decrease of $1.1 million.

***Off-Balance Sheet Arrangements***

As of March 31, 2014, we did not have any off-balance sheet arrangements, as such term is defined in Item 303(a)(4) of Regulation S-K under the Securities Act of 1933, as amended.

***Funding Requirements***

For the three months ended March 31, 2014, we sold 538,521 shares of our class A common stock through at-the-market offerings, and received gross proceeds of approximately $5.5 million before deducting issuance expenses.

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

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

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

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

To the extent that our capital resources may be insufficient to meet our future capital requirements, we may need to finance our future cash needs through at-the-market offerings, public or private equity offerings, debt financings or corporate collaboration and licensing arrangements. At March 31, 2014, based upon our current business plan, we believe we have sufficient liquidity for the next 12 months.

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

***Effects of Foreign Currency***

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

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

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

***Foreign Exchange Rate Risk***

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

***Interest Rate Risk***

Our exposure to market risks associated with changes in interest rates relates primarily to the increase or decrease in the amount of interest income earned on our investment portfolio. We ensure the safety and preservation of invested funds by attempting to limit default risk, market risk and reinvestment risk. We attempt to mitigate default risk by investing in investment grade securities. A hypothetical one percentage point decline in interest rates would not have materially affected the fair value of our interest-sensitive financial instruments as of March 31, 2014.

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

***Credit Risk***

Our exposure to credit risk consists of cash and cash equivalents, restricted cash, investments and receivables. We place our cash, cash equivalents and restricted cash with what we believe to be highly rated financial institutions and invest the excess cash in highly rated investments. As of March 31, 2014 and December 31, 2013, approximately 19.5% and 17.1%, respectively, of our cash, cash equivalents, restricted cash and investments are issued or insured by the federal government or government agencies. We have not experienced any losses on these accounts related to amounts in excess of insured limits.

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

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

Our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, performed an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act), as of March 31, 2014. In designing and evaluating such controls, management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives, and management necessarily applies its judgment in evaluating the benefits of possible controls and procedures relative to their costs. Based upon the evaluation we carried out, our Chief Executive Officer and Chief Financial Officer have concluded that, as of March 31, 2014, our disclosure controls and procedures were effective to provide reasonable assurance that the information required to be disclosed by us in the reports that we file or submit under the Exchange Act , is recorded, processed, summarized and reported within the time periods specified under the applicable rules and forms of the SEC, and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

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

There were no changes in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended March 31, 2014 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

## Part II — OTHER INFORMATION

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

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

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

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

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

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

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

(a) None.
(b) None.

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

None.

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

(a) None.
(b) None.

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

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

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

**SIGNATURES**

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

Sucampo Pharmaceuticals, Inc.

May 9, 2014 By: /s/ PETER GREENLEAF
Peter Greenleaf
Chief Executive Officer
(Principal Executive Officer)

May 9, 2014 By: /s/ CARY J. CLAIBORNE
Cary J. Claiborne
Chief Financial Officer
(Principal Financial Officer)

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

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**EXHIBIT 31.1**

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

I, Peter Greenleaf, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 9, 2014

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

**EXHIBIT 31.2**

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

I, Cary J. Claiborne, certify that:

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

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

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

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

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

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

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

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

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

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

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

Date: May 9, 2014

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

**EXHIBIT 32.1**

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

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

(1) The Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 9, 2014

/s/ Peter Greenleaf

Peter Greenleaf
Chief Executive Officer
(Principal Executive Officer)

**EXHIBIT 32.2**

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

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

(1) The Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 of the Company (the "Report") fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

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

Date: May 9 , 2014

/s/ CARY J. CLAIBORNE

Cary J. Claiborne
(Principal Financial Officer)