FORM 10-Q

Quarterly report pursuant to sections 13 or 15(d)

Filing Date: **2001-08-03** | Period of Report: **2001-06-30**
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FILER

SCICLONE PHARMACEUTICALS INC

CIK:**880771**| IRS No.: **943116852** | State of Incorp.:**CA** | Fiscal Year End: **1231**
Type: **10-Q** | Act: **34** | File No.: **000-19825** | Film No.: **1697119**
SIC: **2834** Pharmaceutical preparations

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FORM 10-Q

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

(Mark One)

[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2001

OR

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

For the transition period from _____to _____

Commission file number: 0-19825

SCICLONE PHARMACEUTICALS, INC.
(Exact name of registrant as specified in its charter)

CALIFORNIA	94-3116852
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer Identification no.)

901 MARINER'S ISLAND BLVD., SUITE 205, SAN MATEO, CALIFORNIA	94404
(Address of principal executive offices)	(Zip code)

(650) 358-3456
(Registrant's telephone number, including area code)

NOT APPLICABLE
(Former name, former address and former fiscal year, if changed since last report)

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 [X] No [ ]

As of June 30, 2001, 32,389,605 shares of the registrant's Common Stock, no par value, were issued and outstanding.

SCICLONE PHARMACEUTICALS, INC.

INDEX

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</TABLE>

3

PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

SCICLONE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

ASSETS

<TABLE>
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	June 30, 2001 (unaudited)	December 31, 2000 (Note 1)
<S>	<C>	<C>
Current assets:		
Cash and cash equivalents	$ 19,306,000	$ 21,981,000
Short-term investments	896,000	516,000
Accounts receivable, net	7,934,000	8,621,000
Inventory	2,296,000	2,020,000
Prepaid expenses and other current assets	1,988,000	1,233,000
Total current assets	32,420,000	34,371,000
Property and equipment, net	186,000	214,000
Other assets	1,498,000	1,582,000
Total assets	$ 34,104,000	$ 36,167,000

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:		
Accounts payable	$ 2,409,000	$ 2,327,000
Accrued compensation and benefits	552,000	787,000
Accrued clinical trials expense	239,000	202,000
Accrued professional fees	608,000	281,000
Other accrued expenses	128,000	453,000
Other current liabilities	52,000	40,000
Total current liabilities	3,988,000	4,090,000
Convertible notes payable	5,600,000	4,000,000
Shareholders' equity:		
Common stock, no par value; 75,000,000 shares authorized; 32,389,605 and 32,209,286 shares issued and outstanding at June 30, 2001 and December 31, 2000, respectively	145,534,000	144,815,000
Net unrealized gain on available-for-sale securities	72,000	8,000
Accumulated deficit	(121,090,000)	(116,746,000)
Total shareholders' equity	24,516,000	28,077,000
Total liabilities and shareholders' equity	$ 34,104,000	$ 36,167,000

</TABLE>

See notes to condensed consolidated financial statements

4

SCICLONE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(unaudited)

<TABLE>
<CAPTION>

	Three months ended June 30,		Six months ended June 30,	
	2001	2000	2001	2000
<S>	<C>	<C>	<C>	<C>
Product revenue	$ 3,250,000	$ 4,206,000	$ 6,363,000	$ 7,705,000
Cost of product sales	636,000	849,000	1,234,000	1,584,000
Gross profit	2,614,000	3,357,000	5,129,000	6,121,000
Operating expenses:				
Research and development	1,586,000	1,297,000	3,227,000	2,556,000
Marketing	2,651,000	2,036,000	4,928,000	3,952,000
General and administrative	961,000	897,000	1,791,000	1,540,000
Total operating expenses	5,198,000	4,230,000	10,046,000	8,048,000
Loss from operations	(2,584,000)	(873,000)	(4,917,000)	(1,927,000)
Interest and investment income, net	365,000	284,000	573,000	463,000
Net loss	$ (2,219,000)	$ (589,000)	$ (4,344,000)	$ (1,464,000)
Net loss per common share (basic & diluted)	$ (0.07)	$ (0.02)	$ (0.13)	$ (0.05)
Weighted average shares used in computing per share amounts	32,289,857	31,442,890	32,266,474	29,599,825

</TABLE>

See notes to condensed consolidated financial statements

5

SCICLONE PHARMACEUTICALS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(unaudited)

<TABLE>
<CAPTION>

	Six months ended June 30, 2001	2000
<S>	<C>	<C>
OPERATING ACTIVITIES:		
Net loss	$ (4,344,000)	$ (1,464,000)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	261,000	295,000
Changes in operating assets and liabilities:		
Prepaid expenses and other assets	(877,000)	(48,000)
Accounts receivable	687,000	(3,877,000)
Inventory	(276,000)	(73,000)
Accounts payable and other accrued expenses	(232,000)	418,000
Accrued compensation and benefits	(235,000)	(200,000)
Accrued clinical trials expense	38,000	397,000
Accrued professional fees	327,000	(166,000)
Net cash used in operating activities	(4,651,000)	(4,718,000)
INVESTING ACTIVITIES:		
Purchase of property and equipment	(28,000)	(43,000)
Purchase of marketable securities, net	(316,000)	1,803,000
Net cash (used in) provided by investing activities	(344,000)	1,760,000
FINANCING ACTIVITIES:		
Proceeds from issuance of convertible note	1,600,000	--
Proceeds from issuance of common stock, net of financing cost	720,000	19,131,000
Net cash provided by financing activities	2,320,000	19,131,000
Net (decrease) increase in cash and cash equivalents	(2,675,000)	16,173,000
Cash and cash equivalents, beginning of period	21,981,000	1,828,000
Cash and cash equivalents, end of period	$ 19,306,000	$ 18,001,000

</TABLE>

See notes to condensed consolidated financial statements

6

SCICLONE PHARMACEUTICALS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(UNAUDITED)

1. The accompanying unaudited consolidated financial statements have been prepared in conformity with generally accepted accounting principles consistent with those applied in, and should be read in conjunction with, the audited financial statements for the year ended December 31, 2000. The interim financial information reflects all normal recurring adjustments

which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented. The balance sheet data at December 31, 2000 is derived from the audited financial statements at that date but does not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. The interim results are not necessarily indicative of results for subsequent interim periods or for the full year.

2. In June 1998, the Financial Accounting Standards Board issued Statement No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS 133"), which is required to be adopted for the year ending December 31, 2001. The adoption of SFAS 133 did not have a significant impact on results of operations or the financial position of the Company.

3. In March 2000, the FASB issued Interpretation No. 44 ("FIN 44"), "Accounting for Certain Transactions Involving Stock Compensation, an Interpretation of Opinion No. 25" for (a) the definition of employee for purposes of applying Opinion No. 25, (b) the criteria for determining whether a plan qualifies as a noncompensatory plan, (c) the accounting consequences of various modifications to the terms of a previously fixed stock option or award, and (d) the accounting for an exchange of stock compensation awards in a business combination. FIN 44 became effective July 1, 2000, but certain conclusions cover specific events that occur after either December 15, 1998, or January 12, 2000. The adoption of certain provisions of FIN 44 did not have a material impact on the Company's financial position or results of operations.

4. For the six-month periods ended June 30, 2001 and 2000, the Company's total comprehensive loss amounted to $(4,280,000) and $(1,454,000), respectively.

5. The following is a summary of available-for sale securities at June 30, 2001:

<TABLE>
<CAPTION>

	Available-for-sale securities			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
<S>	<C>	<C>	<C>	<C>
Agency obligations	$ 6,000,000	$ --	$ --	$ 6,000,000
Corporate obligations	9,104,000	3,000	(4,000)	9,103,000
Corporate equity securities	--	73,000	--	73,000
	$ 15,104,000	$ 76,000	$ (4,000)	$ 15,176,000

</TABLE>

As of June 30, 2001, the average portfolio duration was less than one year.

6. The following is a summary of inventories at June 30, 2001:

<TABLE>

<S>	<C>
Raw materials	$1,593,000
Finished goods	703,000
	$2,296,000

</TABLE>

7. The following is a summary of other assets at June 30, 2001:

<TABLE>
<S> <C>

Intangible product rights - net	$1,296,000
Other	202,000
	$1,498,000

</TABLE>

ZADAXIN(R) product rights that the Company acquired are being amortized over six years beginning in September 1998. The Company identifies and records impairment losses, as circumstances dictate, on intangible product rights when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. The Company to date has not identified any impairment losses on these assets.

8. In March 2001, the Company completed a $1.6 million senior unsecured convertible note with an investment affiliate of UBS AG. The $1.6 million note is convertible into 276,530 shares of the Company's common stock at a fixed conversion price of $5.7860 per share. The note will accrue interest at a rate of 6% per year and will mature in March 2006. The note is not convertible prior to March 21, 2002. The Company also received $360,000 for granting the investor the right to purchase approximately $2.3 million of senior unsecured convertible notes due March 2006. The $360,000 was accounted for as an increase to shareholders' equity. If issued, the notes will bear no interest (zero coupon) and will be convertible into 276,530 shares of the Company's common stock at a fixed conversion price of $8.5532 per share.

9. For the three-month period ended June 30, 2001, the Company received approximately $228,000 in connection with exercises of outstanding options to purchase 118,654 shares of common stock.

10. The Company does not have any minimum purchase requirements under its contract manufacturing supply agreements for ZADAXIN and CPX.

11. The Company recognizes revenue from product sales to importing agents in the People's Republic of China and to distributors elsewhere at the time of shipment when legal title to the products is transferred to them. The Company's importing agents and distributors do not have a contractual right of return except under limited terms regarding product quality. The Company recognizes contract/grant revenue when services have been performed.

12. The Company accounts for equity instruments issued to non-employees in accordance with the provisions of SFAS 123 and Emerging Issues Task Force ("EITF") 96-18. Warrants issued in connection with equity and debt arrangements are valued using the Black-Scholes option valuation model. Warrants issued to placement agents and similar parties in connection with equity financing efforts are accounted as stock issuance cost with an equal amount recorded as common stock. Warrants issued to purchasers of the Company's equities are not specifically accounted for as their value is a sub-component of common stock. The fair value of warrants issued in connection with debt

arrangements, if material, is accounted for as a debt discount and amortized as additional interest expense over the term of the related debt.

13. Net loss per share is computed using the weighted average number of shares of common stock outstanding. Common equivalent shares from stock options and warrants are excluded, as their effect is antidilutive.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our condensed consolidated financial statements and related notes appearing elsewhere in this report. This discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. "Forward --- looking statements" include those relating to expense levels and expectations regarding clinical trials as well as statements including the words "expects", "anticipates", "believes" or similar words. The actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, such as those set forth under "Risk Factors" and the risks discussed in our other SEC filings, including our Annual Report on Form 10-K filed March 29, 2001 with the SEC.

OVERVIEW

We develop and commercialize novel medicines for treating a broad range of the world's most serious diseases. Our current product development and commercial activities are focused on the following diseases:

- hepatitis C, an infectious disease affecting 170 million people worldwide;

- hepatocellular carcinoma, the most common and deadliest form of liver cancer worldwide;

- malignant melanoma, the deadliest form of skin cancer and one of the most rapidly increasing types of cancer worldwide;

- hepatitis B, an infectious disease affecting 350 million people worldwide;

- HIV, the virus that causes AIDS;

- drug-resistant tuberculosis, an infectious disease reaching pandemic proportions worldwide; and

- cystic fibrosis, the most common fatal genetic disease among Caucasians.

Our flagship drug is ZADAXIN, an immune system enhancer or ISE. An ISE drug, such as ZADAXIN, is one that helps stimulate, maintain and direct the body's antiviral or anticancer responses. ZADAXIN boosts the body's immune system in the fight against multiple types of cancer and infectious diseases. ZADAXIN is in or expected to enter phase 2 and phase 3 development in the U.S., Europe and Japan, the three markets that represent approximately 90% of the world's pharmaceutical market. We have initiated a phase 3 clinical program in the U.S. for the treatment of hepatitis C using ZADAXIN as part of a combination therapy with Pegasys(R), pegylated interferon alfa-2a, proprietary product of F. Hoffmann-La Roche Ltd. In this U.S. phase 3 program site selection has been completed, the clinical research organization has been engaged and the investigational review board approval process has commenced. In addition to hepatitis C, current ZADAXIN clinical research focuses on hepatocellular carcinoma, malignant melanoma and hepatitis B. Approximately 3,000 patients have been treated with ZADAXIN in over 70 clinical trials covering a broad range of life-threatening diseases in which the immune system plays a key role in the patient's ability to fight back.

ZADAXIN has been approved for sale in many emerging growth nations, principally for the treatment of hepatitis B and hepatitis C, and we are currently selling ZADAXIN primarily in the People's Republic of China. The net cash flow from our international sales efforts are used to partially fund our U.S. clinical trial programs. Our total ZADAXIN sales for 2000 were $15,357,000, a 69% increase over 1999 sales of $9,091,000, and for the six months ended June 30, 2001, sales were $6,363,000, a 17% decrease compared to sales of $7,705,000 for the six months ended June 30, 2000.

Our second product in clinical development, CPX, is a novel protein-repair therapy for cystic fibrosis, the most common fatal genetic disease among Caucasians. Currently approved drugs treat only the symptoms of cystic fibrosis, not the underlying cause of the disease. CPX, which we have in-licensed from the U.S. National Institutes of Health, is designed to repair the underlying protein-associated defect responsible for cystic fibrosis in most patients, not just the symptoms of the disease. CPX is currently in a phase 2 development program in the U.S.

Additional drug candidates in our pipeline include SCV-07, the lead, orally active, compound in our new class of immune system enhancer drugs and DAX. SCV-07 has entered phase 1 testing for drug-resistant tuberculosis and we expect to develop SCV-07 for cancer and viral hepatitis. DAX is targeted at cystic fibrosis.

RESULTS OF OPERATIONS

Total revenue was approximately $3,250,000 and $6,363,000 for the three-month and six-month periods ended June 30, 2001, as compared to approximately $4,206,000 and $7,705,000 for the corresponding periods in 2000. This 17 percent decrease for the six-month period was primarily due to lower sales to importing agents in the People's Republic of China who supply our distributors in China with ZADAXIN, greater sales last year to certain countries using ZADAXIN on a pre-approval named patient basis and to increased competition from other hepatitis B therapies. For the three-month period ended June 30, 2001, all of our total revenue was derived from sales of ZADAXIN, and China accounted for 88% of this revenue. Sales emphasis is concentrated in China because, as one of our more developed markets, marketing expenditures are more likely to benefit sales and profits compared to newer markets-which require investment and development spending.

Cost of product sales was approximately $636,000 and $1,234,000 for the three-month and six-month periods ended June 30, 2001, as compared to approximately $849,000 and $1,584,000 for the corresponding periods in 2000. We expect cost of product sales to vary from quarter to quarter, depending primarily on the level of ZADAXIN sales to distributors who tend to place a few larger orders during the year, the absorption of fixed product-related costs, and any charges associated with excess or expiring finished product.

Research and development expenses were approximately $1,586,000 and $3,327,000 for the three-month and six-month periods ended June 30, 2001, as compared to approximately $1,297,000 and $2,556,000 for the corresponding periods in 2000. The increase was primarily attributable to increases in clinical trial expenses, product research expenses and payroll expenses. The initiation and continuation of ZADAXIN, CPX and other product clinical development programs has had, and will continue to have, significant effect on our research and development expenses and may require us to seek additional capital resources. In general, we expect product research and development expenses to increase significantly in absolute dollars over the next several years and to vary quarter to quarter as we pursue our strategy of initiating additional preclinical and clinical trials and testing, acquiring product rights, and expanding regulatory activities.

Marketing expenses were approximately $2,651,000 and $4,928,000 for the three-month and six-month periods ended June 30, 2001, as compared to approximately $2,036,000 and $3,952,000 for the corresponding periods in 2000. The increase primarily relates to increased payroll expenses and expenses for advertising associated with the expansion in our existing ZADAXIN markets. We expect our marketing expenses to increase in absolute dollars in the next several quarters as we expand our commercialization and marketing efforts and pursue additional strategic collaborations.

General and administrative expenses were approximately $961,000 and $1,791,000 for the three-month and six-month periods ended June 30, 2001, as compared to approximately $897,000 and $1,540,000 for the corresponding periods in 2000. The increase was primarily attributable to increased fees for professional services. In the near term, we expect general and administrative expenses to vary quarter to quarter as we augment our general and administrative

activities and resources to support increased expenditures on preclinical and clinical trials and testing, and regulatory, pre-commercialization and marketing activities.

Net interest and investment income was approximately $365,000 and $573,000 for the three-month and six-month periods ended June 30, 2001, as compared to approximately $284,000 and $463,000 for the corresponding periods in 2000. The increase primarily resulted from increase in other income due to the repayment of a loan from a former officer, offset by decreased interest and investment income due to lower average invested cash balances.

Management intends to give priority use of the Company's financial resources to its clinical programs in the United States.

LIQUIDITY AND CAPITAL RESOURCES

At June 30, 2001 and 2000, we had approximately $20,202,000 and $18,001,000, respectively, in cash, cash equivalents, short-term investments and marketable securities. The marketable securities consist primarily of highly liquid short-term investments.

Net cash used by us in operating activities amounted to approximately $4,651,000 for the six-month period ended June 30, 2001. Net cash used in operating activities in the 2001 period was greater than our net loss for that period due to decreases in accounts payable, decreases in accrued compensation and benefits and increases in prepaid expenses and inventory, partially offset by decreases in accounts receivable.

Net cash used by us in investing activities amounted to approximately $344,000 for the six-month period ended June 30, 2001 and related to the net purchase of approximately $316,000 of marketable securities and the purchase of approximately $28,000 in equipment and furniture.

For the six-month period ended June 30, 2001, net cash provided by financing activities amounted to approximately $2,320,000 in net proceeds. Of this amount, net cash provided by the issuance of common stock under our employee stock purchase plan amounted to approximately $51,000 in net proceeds; net cash provided by the exercises of outstanding options under our employee stock option plans amounted to approximately $315,000; net cash provided by the issuance of a convertible note amounted to approximately $1,600,000; net cash resulting from the issuance to certain investors of a right to purchase approximately $2,300,000 of senior unsecured convertible notes amounted to approximately $360,000 offset by approximately $6,000 in financing costs.

Management believes our existing capital resources and interest on funds available are adequate to maintain our current and planned operations into 2003. The initiation and continuation of U.S. and Japanese clinical development programs could require additional

funding either from a collaborative source or through equity or debt financing. The need, timing and amount of additional funding will depend upon numerous factors, including the level of ZADAXIN sales, the timing and amount of manufacturing costs related to ZADAXIN and CPX, the availability of complementary products, technologies and businesses, the initiation and continuation of preclinical and clinical trials and testing, particularly ZADAXIN trials in the U.S. and Japan, the timing of regulatory approvals, developments in relationships with existing or future collaborative parties and the status of competitive products. In the event we need to raise additional financing, the unavailability or the timing of any financing could prevent or delay our long-term product development and commercialization programs, either of which would severely hurt our business.

RISK FACTORS

You should carefully consider the risks described below, together with all of the other information included in this report on Form 10-Q, before making an investment decision. The risks below are not the only ones we face. If any of the following risks actually occurs, our business, financial condition or

operating results could be harmed. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment.

IF WE FAIL TO SATISFY AND COMPLY WITH GOVERNMENTAL REGULATIONS OR IF GOVERNMENT REGULATIONS CHANGE, OUR BUSINESS WILL SUFFER.

All new drugs, including our products which have been developed or are under development, are subject to extensive and rigorous regulation by the FDA, and comparable agencies in state and local jurisdictions and in foreign countries. These regulations change from time to time. In prior years, legislation was introduced in the U.S. Congress that would restrict the duration of the marketing exclusivity of an orphan drug. There can be no assurances that this type of legislation will not be reintroduced and passed into law, or that the benefits of the existing statute will remain in effect. Our failure to satisfy and comply with regulations by the FDA, and comparable agencies in state and local jurisdictions and in foreign countries can delay or stop approval of our drugs. These regulations govern, among other things, the development, testing, manufacturing, labeling, storage, premarket approval, importation, advertising, promotion, sale and distribution of our products. Satisfaction of these regulations typically takes several years and the time needed to satisfy them varies substantially, based on the type, complexity and novelty of the pharmaceutical product. As a result, government regulation may cause us to delay the introduction of, or prevent us from marketing, our existing or potential products for a considerable period of time and to impose costly procedures upon our activities. If regulatory approval of our products is granted, such approval may impose limitations on the indicated uses for which our products may be marketed. The pegylated interferon we will use in our phase 3 program in the U.S. has not yet been approved by the FDA. While we anticipate that such approval will be obtained, we would need to conduct an additional trial with an approved form, resulting in additional delays and expenses, if it is not obtained.

IF WE FAIL TO OBTAIN REGULATORY APPROVALS IN COUNTRIES WHERE WE HAVE TARGETED REGULATORY APPROVAL FOR OUR PRODUCTS, WE MAY NOT BE ABLE TO SUSTAIN OR INCREASE OUR REVENUES AND OUR STOCK PRICE MAY DECLINE.

The research, preclinical and clinical development, manufacturing, marketing and sale of ZADAXIN, CPX and our other drug candidates are subject to extensive regulation by governmental authorities. ZADAXIN, CPX and any other products we may sell must be approved by the FDA or its foreign counterparts before they can be sold in any jurisdiction. Obtaining regulatory approval is time-consuming and expensive. In some countries where we are contemplating marketing and selling ZADAXIN, the regulatory approval process for drugs that have not been previously approved in countries with established clinical trial review procedures

is uncertain, and this may delay the grant of regulatory approvals for ZADAXIN. In addition, to secure these regulatory approvals, for ZADAXIN and CPX, we will need, among other things, to demonstrate favorable results from additional clinical trials of ZADAXIN and the safety and efficacy of CPX as a treatment for cystic fibrosis in preclinical and clinical trials. Our failure to obtain the required regulatory approvals so that we can develop, market and sell our products in countries where we currently do not have such rights may limit our revenues.

There can be no assurance that we will ultimately obtain regulatory approvals in our targeted countries in a timely and cost-effective manner or at all. Failure to comply with applicable U.S. or foreign regulatory requirements can, among other things, result in warning letters, fines, suspensions of regulatory approvals, product recalls or seizures, operating restrictions, injunctions, total or partial suspension of production, civil penalties, and criminal prosecutions. Further, additional government regulation may be established or imposed by legislation or otherwise, which could prevent or delay regulatory approval of ZADAXIN, CPX or any of our future products. Adverse events related to our products in any of our existing or future markets could cause regulatory authorities to withdraw market approval for such products, if any, or prevent us from receiving market approval in the future.

We may not be able to commence or complete the clinical trials we have sponsored or are planning relating to ZADAXIN and CPX in a timely or cost-effective manner. Even if completed, these trials may not fulfill the applicable regulatory approval criteria, in which case we will not be able to obtain regulatory approvals in these countries. Failure to obtain additional regulatory approvals will harm our operating results. In addition, adverse results in our development programs also could result in restrictions on the use of ZADAXIN and, if approved, CPX.

WE ARE IMPLEMENTING A PHASE 3 PROGRAM IN THE U.S. FOR THE APPROVAL IN THE U.S. OF ZADAXIN IN COMBINATION WITH PEGYLATED INTERFERON FOR THE TREATMENT OF HEPATITIS C. OUR SCIENTIFIC AND CLINICAL RESEARCH DATA RELATING TO ZADAXIN IN COMBINATION WITH INTERFERON FOR THE TREATMENT OF HEPATITIS C IS BASED ON THE USE OF THE NON-PEGYLATED FORM OF INTERFERON.

The results from our previous phase 2 and phase 3 hepatitis C studies have enabled us to produce a conservatively designed phase 3 study program based on the use of ZADAXIN in combination with non-pegylated interferon. We are proceeding with this program and have completed site selection and engaged the clinical research organization, and the investigational review board approval process has commenced. However, there can be no assurances that the results that produced this conservative design will carryover to the design of the study program using the combination of ZADAXIN and pegylated interferon. The pegylated form of interferon may perform better than anticipated in comparison to the combination of ZADAXIN and pegylated interferon. If that results, our efforts to market and sell ZADAXIN in combination with pegylated interferon will be delayed, which will hurt our expectations.

WE HAVE A HISTORY OF OPERATING LOSSES AND AN ACCUMULATED DEFICIT. WE EXPECT TO CONTINUE TO INCUR LOSSES IN THE NEAR TERM AND MAY NEVER ACHIEVE PROFITABILITY.

We have experienced significant operating losses since our inception and as of June 30, 2001, we had an accumulated deficit of $121,090,000. We expect our operating expenses to increase over the next several years as we plan to dedicate substantially all of our resources to expanding our development, testing and marketing capabilities, particularly in the U.S. Accordingly, we may never achieve profitability. Our failure to achieve profitability may cause our stock price to decline.

IF WE DO NOT INCREASE THE AMOUNT OF REVENUE WE DERIVE FROM SALES OF ZADAXIN WE WILL NEED TO OBTAIN ADDITIONAL CAPITAL TO SUPPORT OUR LONG-TERM PRODUCT DEVELOPMENT AND COMMERCIALIZATION PROGRAMS.

Our strategy in the near term is to invest in phase 2 and 3 clinical studies in the U.S. Europe and Japan and continue to maintain and develop our international ZADAXIN business. Our ability to achieve and sustain operating profitability depends in large part on our ability to:

- commence, execute and complete clinical programs for, and obtain additional regulatory approvals for, ZADAXIN, CPX, and/or future products, particularly in the U.S., Europe and Japan;

- increase ZADAXIN sales in existing markets; and

- launch ZADAXIN in new markets;

Although we remain optimistic regarding the prospects of ZADAXIN, we cannot assure you that we will ever achieve significant levels of sales or that we will receive additional ZADAXIN market approvals.

If we do not increase the revenue we derive from the sales of ZADAXIN and achieve operating profitability, we will need to obtain additional financing to support our long-term product development and commercialization programs. We may seek additional funds through public and private stock offerings, arrangements with corporate partners, borrowings under lease lines of credit or other sources. If we cannot raise the necessary funds, we will have to reduce our capital expenditures, scale back our development of new products, reduce our

workforce and out-license to others products or technologies that we otherwise would seek to commercialize ourselves.

The amount of capital we need will depend on many factors, including:

- the level of future ZADAXIN sales;
- the timing, location, scope and results of ongoing and planned preclinical studies and clinical trials;
- the cost of manufacturing or obtaining preclinical and clinical materials;
- expense levels for our international sales and marketing efforts;
- the timing and cost involved in applying for and obtaining FDA and international regulatory approvals;
- the costs involved in filing, prosecuting and enforcing patent claims;
- competing technological and market developments;
- whether any or all of our outstanding common stock warrants are exercised and the timing and amount of these exercises;
- our ability to establish and maintain strategic arrangements for development, sales, manufacturing and marketing of our products; and

- whether we elect to establish additional partnering arrangements for development, sales, manufacturing, and marketing of our products.

Many of the foregoing factors are not within our control. If we need to raise additional funds and such funds are not available on reasonable terms, we may be required to delay or cancel our product development and commercialization programs. Any additional equity financing will be dilutive to shareholders, and any debt financing, if available, may include restrictive covenants.

WE MAY NOT BE ABLE TO SUCCESSFULLY DEVELOP OR COMMERCIALIZE OUR PRODUCTS.

Many of our products are in the development stage and will require the commitment of substantial resources, devoted to extensive research, development, preclinical testing, clinical trials, manufacturing scale-up and regulatory approval prior to being ready for sale. We can not assure you that commercially viable products will result from these efforts. We face significant technological risks inherent in developing these products. We may also abandon some or all of our proposed products before they become commercially viable. If any of our products, even if developed and approved, cannot be successfully commercialized in a timely manner, our business will be harmed and the price of our stock may decline.

We have not yet sold any product other than ZADAXIN. Our future revenue growth depends on increased market acceptance and commercialization of ZADAXIN in additional countries, particularly the U.S. and European countries. If we fail to successfully market ZADAXIN, or if we cannot commercialize this drug in the U.S. and other additional markets, our revenue and operating results will suffer. Our future revenue will also depend in part on our ability to develop other commercially viable and accepted products. Market acceptance of our products will depend on many factors, including our ability to:

- convince prospective customers that our products are an attractive alternative to other treatments and therapies;
- convince prospective strategic partners that our products are an attractive alternative to other treatments and therapies; and,
- manufacture products in sufficient quantities with acceptable quality and at an acceptable cost.

WE ARE DEPENDENT ON THE SALE OF ZADAXIN IN FOREIGN COUNTRIES, PARTICULARLY CHINA, AND IF WE EXPERIENCE DIFFICULTIES IN OUR FOREIGN SALES EFFORTS, OUR FINANCIAL CONDITION WILL BE HARMED.

Our financial condition in the near term is highly dependent on the sale of ZADAXIN in foreign countries. If we experience difficulties in our foreign sales efforts, our business will suffer and our financial condition will be harmed. The majority of our ZADAXIN sales are to customers in the People's Republic of China. Sales of ZADAXIN in China may be limited due to its low average income, poorly developed infrastructure and existing and potential competition from other products, possibly including generics. China uses a tiered method to import and distribute finished pharmaceutical products. At each port of entry, and prior to moving the product forward to the distributors, government licensed importing agents must process and evaluate each shipment to determine whether such shipment satisfies China's quality assurance requirements. In order to efficiently manage this process, the importing agents place relatively few orders from time to time over any six month period and each order is typically for large quantities. Therefore, our sales to an importing agent can vary substantially from quarter to quarter depending on the size and timing of the orders, which may cause our quarterly results to

fluctuate. In addition, our ZADAXIN sales and operations in other parts of Asia, as well as in Latin America and the Middle East, are subject to a number of risks, including:

- difficulties and delays in obtaining pricing approvals and reimbursement;
- difficulties and delays in obtaining product health registration;
- difficulties and delays in obtaining importation permits;
- unexpected changes in regulatory requirements;
- difficulties in staffing and managing foreign operations;
- long payment cycles;
- difficulties in accounts receivable collection;
- currency fluctuations; adverse or deteriorating economic conditions; and
- potential adverse tax consequences.

We do not have product sales in the U.S. with which to offset any decrease in our revenue from ZADAXIN sales in Asia, Latin America and the Middle East. In addition, some countries in these regions regulate pharmaceutical prices and pharmaceutical importation. These regulations may reduce prices for ZADAXIN to levels significantly below those that would prevail in an unregulated market or limit the volume of product which may be imported and sold, either of which may limit the growth of our revenues or cause them to decline.

WE HAVE LIMITED SALES, MARKETING AND DISTRIBUTION CAPABILITIES, WHICH MAY ADVERSELY AFFECT OUR ABILITY TO SUCCESSFULLY COMMERCIALIZE OUR PRODUCTS.

We currently have limited sales, marketing and distribution capabilities, and we anticipate that we will be relying on third-party collaborators to sell, market and distribute our products in the foreseeable future. If our arrangements with these third parties are not successful, or if we are unable to enter into additional third-party arrangements, we may need to substantially expand our sales, marketing and distribution force. Our efforts to expand may not succeed, or we may lack sufficient resources to expand in a timely manner, either of which will harm our operating results. If we are able to further develop our sales, marketing and distribution capabilities, we will compete with other companies that have experienced and well funded operations. If we cannot successfully compete with them, our revenues may not grow and our business may

suffer.

IF WE ARE NOT ABLE TO ESTABLISH AND MAINTAIN ADEQUATE MANUFACTURING AND SUPPLY RELATIONSHIPS, THE DEVELOPMENT AND SALE OF OUR PRODUCTS COULD BE IMPAIRED.

To be successful, our products must be manufactured in commercial quantities, in compliance with regulatory requirements and at an acceptable cost. We may not be able to maintain the long-term manufacturing relationships we currently have with our suppliers of ZADAXIN and CPX. Manufacturing interruptions, if any, could significantly delay clinical development of potential products and reduce third-party or clinical researcher interest and support of proposed trials. These interruptions could also impede commercialization of our products, including sales of ZADAXIN in approved markets, and impair our competitive position. Any of these developments would harm our business. In some countries, a change may require additional regulatory approvals. If we do not obtain the required regulatory approvals of

this manufacturing change in a timely fashion, new ZADAXIN marketing approvals may be delayed or sales may be interrupted until the manufacturing change is approved. Either of these results will hurt our business.

Manufacturing, supply and quality control problems may arise as we, either alone or with subcontractors, attempt to scale-up our manufacturing procedures. We may not be able to scale-up in a timely manner or at a commercially reasonable cost. Problems could lead to delays or pose a threat to the ultimate commercialization of our products and harm us.

IF WE DO NOT OBTAIN RIGHTS TO ADDITIONAL PRODUCTS FROM THIRD PARTIES, OUR PROSPECTS FOR FUTURE REVENUE MAY DECLINE.

We are only actively pursuing clinical development of ZADAXIN and CPX at this time. If we do not advance SCV-07 and DAX, the other products to which we have in-licensed rights, from preclinical into clinical development we may lose the rights to these products. We may also have a shortage of drugs to develop and commercialize if we do not license or otherwise acquire rights to additional drugs. Any shortage in the number of drugs that we are able to develop and commercialize may reduce our prospects for future revenue.

COMMERCIALIZATION OF SOME OF OUR PRODUCTS DEPENDS ON COLLABORATIONS WITH OTHERS. IF OUR COLLABORATORS ARE NOT SUCCESSFUL, OR IF WE ARE UNABLE TO FIND FUTURE COLLABORATORS, WE MAY NOT BE ABLE TO PROPERLY DEVELOP AND COMMERCIALIZE OUR PRODUCTS.

We depend in part on our distributors and business partners to develop and/or promote our drugs, and if they are not successful in their efforts or fail to do so, our business will suffer. We generally do not have control over the amount and timing of resources that our business partners devote to ZADAXIN and they have not always performed as or when expected. If they do not perform their obligations as we expect, our development expenses would increase and the development and/or sale of our products could be limited or delayed, which could cause our business to suffer and our stock price to decline. In addition, our relationships with these companies may not be successful. Disputes may arise over ownership rights to intellectual property, know-how or technologies developed with our collaborators, and we may not be able to negotiate similar additional arrangements in the future to develop and commercialize ZADAXIN.

IF WE FAIL TO PROTECT OUR PRODUCTS, TECHNOLOGIES AND TRADE SECRETS, WE MAY NOT BE ABLE TO SUCCESSFULLY USE, MANUFACTURE OR MARKET AND SELL OUR PRODUCTS OR WE MAY FAIL TO ADVANCE OR MAINTAIN OUR COMPETITIVE POSITION.

Our success depends significantly on our ability to obtain and maintain meaningful patent protection for our products and technologies, to preserve our trade secrets and to avoid infringing on the proprietary rights of third parties. Our pending patent applications may not result in the issuance of patents in the future. Our patent applications may not have priority over others' applications and, even if any patents are issued, they may not provide a competitive advantage to us or may be invalidated or circumvented by our competitors. Others may independently develop similar products or design around

patents issued or licensed to us. Patents issued to, or patent applications filed by, other companies could harm our ability to use, manufacture or market our products or maintain our competitive position with respect to our products. Many of our patents relating to ZADAXIN have expired, and we have rights to other patents and patent applications relating to ZADAXIN under exclusive licenses. If we breach the terms of any of these licenses, we could lose our rights to these patents and patent applications.

Our commercial success also depends in part on us not infringing valid, enforceable patents or proprietary rights of third parties, and not breaching any licenses that may relate to our technologies and products. We are aware of third-party patents that may relate to our products. It

is possible that we may unintentionally infringe these patents or other patents or proprietary rights of third parties. We may in the future receive notices claiming infringement from third parties as well as invitations to take licenses under third-party patents. Any legal action against us or our collaborative partners claiming damages and seeking to enjoin commercial activities relating to our products and processes affected by third-party rights may require us or our collaborative partners to obtain licenses in order to continue to manufacture or market the affected products and processes. Our efforts to defend against any of these claims, even if unmeritorious, would require us to devote resources and attention that could have been directed to our operation and growth plans. In addition, these actions may subject us to potential liability for damages. We or our collaborative partners may not prevail in a patent action and any license required under a patent may not be made available on commercially acceptable terms, or at all.

Pharmaceuticals are either not patentable or have only recently become patentable in some of the countries other than the U.S., in which we have exclusive rights to ZADAXIN. Past enforcement of intellectual property rights in many of these countries has been limited or non-existent. Future enforcement of patents and proprietary rights in many other countries will likely be problematic or unpredictable. Moreover, the issuance of a patent in one country does not assure the issuance of a similar patent in another country. Claim interpretation and infringement laws vary by nation, so the extent of any patent protection is uncertain and may vary in different jurisdictions.

IF WE MAKE ANY ACQUISITIONS, WE WILL INCUR A VARIETY OF COSTS AND MAY NEVER REALIZE THE ANTICIPATED BENEFITS.

If appropriate opportunities become available, we may attempt to acquire products, product candidates or businesses that we believe fit strategically with our business. We currently have no commitments or agreements with respect to material acquisitions. If we do undertake any transaction of this sort, the process of integrating an acquired product, product candidate or business may result in operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for our ongoing business development plans. Moreover, we may never realize the anticipated benefits of any acquisition. Future acquisitions could result in potentially dilutive issuances of equity securities, the incurrence of debt, contingent liabilities and/or amortization expenses related to goodwill and other intangible assets, which could adversely affect our business, financial condition and results of operations.

WE MAY LOSE MARKET SHARE OR OTHERWISE FAIL TO COMPETE EFFECTIVELY IN THE INTENSELY COMPETITIVE BIOPHARMACEUTICAL INDUSTRY.

Competition in the biopharmaceutical industry is intense and we expect that competition to increase. Our success depends on our ability to compete. We believe that the principal competitive factors in this industry include the efficacy, safety, price, therapeutic regimen and manufacturing quality assurance associated with a given drug. Our competitors include biopharmaceutical companies, biotechnology firms, universities and other research institutions, both in the U.S. and abroad, that are actively engaged in research and development of products in the therapeutic areas we are pursuing, particularly cancer, hepatitis B, hepatitis C, HIV and cystic fibrosis. In certain instances, our competitors are currently marketing drugs for cancer, hepatitis B, hepatitis

C and HIV or have products in late-stage clinical trials.

Most of our competitors, particularly large biopharmaceutical companies, have substantially greater financial, technical, regulatory, manufacturing, marketing and human resource capabilities than we do. Most of them also have extensive experience in undertaking the preclinical and clinical testing and obtaining the regulatory approvals necessary to market drugs. Additional mergers and acquisitions in the pharmaceutical industry may result in even more resources being concentrated with our competitors. Principal competitive factors in the

pharmaceutical field include efficacy, safety, and therapeutic regimen. Where comparable products are marketed by other companies price is also a competitive factor. Increased competitive pressure could lead to intensified price-based competition resulting in lower prices and margins, which would hurt our operating results.

We currently rely on sales of ZADAXIN as a treatment for hepatitis C and hepatitis B as our primary source of revenue. However, several large biopharmaceutical companies have substantial commitments to alpha interferon, an approved drug for treating hepatitis B and hepatitis C and to lamivudine, an approved drug to treat hepatitis B. We cannot assure you that we will compete successfully against our competitors or that our competitors, or potential competitors, will not develop drugs or other treatments for hepatitis C, hepatitis B, cystic fibrosis, cancer and other diseases that will be superior to ours. However, in the area of immune system enhancer therapy, we anticipate that our competition for ZADAXIN may be reduced by the fact that ZADAXIN, administered in combination with numerous antiviral and anti-cancer agents, is expected to be complementary rather than competitive to these agents in enhancing the immune system. We believe that we can position ZADAXIN as a complementary rather than competitive drug to many therapies, but cannot guarantee that we will be successful in this endeavor. We expect continuing advancements in and increasing awareness of the use of immune system enhancer therapy to fight cancer and infectious diseases may create new competitors as well as numerous new opportunities for expanded use of ZADAXIN worldwide.

IF THE CURRENT ECONOMIC SLOWDOWN IN THE U.S. CAUSES THE ECONOMIES OF OTHER COUNTRIES, PARTICULARLY THOSE IN ASIA, LATIN AMERICA AND THE MIDDLE EAST TO EXPERIENCE A SLOWDOWN OR RECESSION, OUR BUSINESS WILL SUFFER.

The U.S. is the world's largest consumer and as such, the current economic slowdown in the U.S. may adversely affect the economies of other countries, including the developing countries in Asia, Latin America and the Middle East from which we derive all of our revenues. If the economic conditions in the U.S. continue or worsen, these developing countries may also experience an economic slowdown or recession, which would likely result in a decrease of sales of ZADAXIN. Any decrease in sales of ZADAXIN would harm our operating results, delay our efforts to achieve profitability, and likely cause our stock price to decline.

WE RELY ON A CONTINUOUS POWER SUPPLY TO CONDUCT OUR OPERATIONS, AND CALIFORNIA'S CURRENT ENERGY CRISIS COULD DISRUPT OUR BUSINESS AND INCREASE OUR EXPENSES.

California is in the midst of an energy crisis that could disrupt our operations and increase our expenses. In the event of an acute power shortage, that is, when power reserves for California fall below 1.5%, electricity providers have on some occasions implemented, and may in the future continue to implement, rolling blackouts. The majority of our operations are located in California; however, we currently do not have backup generators or alternate sources of power in the event of a blackout. If blackouts interrupt our power supply, we would be temporarily unable to continue operations at our facilities. Any such interruption in our ability to continue operations at our facilities could damage our reputation and harm our development efforts, which could adversely affect our business and results of operation.

IF THIRD-PARTY REIMBURSEMENT IS NOT AVAILABLE OR PATIENTS CANNOT OTHERWISE PAY FOR ZADAXIN, WE MAY NOT BE ABLE TO SUCCESSFULLY MARKET ZADAXIN.

Our ability to successfully commercialize our products may depend in part on the extent to which coverage and reimbursement to patients for our products will be available from government health care programs, private health insurers and other third party payors or organizations. Significant uncertainty exists as to the reimbursement status of new therapeutic products, such as ZADAXIN, and we cannot assure you that third party insurance coverage and

reimbursement will be available for therapeutic products we might develop. In most of the emerging markets in which we sell ZADAXIN or intend to sell ZADAXIN, reimbursement for ZADAXIN under government or private health insurance programs is not yet widely available. The failure to obtain third-party reimbursement for our products, particularly in the U.S., Europe and Japan, will hurt our business. In the U.S., proposed health care reforms could limit the amount of third-party reimbursement available for our products. We cannot assure you that future additional limitations will not be imposed in the future on drug coverage and reimbursement. In many emerging markets where we have marketing rights to ZADAXIN, government resources and per capita income may be so low that our products will be prohibitively expensive. In these countries, we may not be able to market our products on economically favorable terms, if at all.

Efforts by governmental and third-party payors to contain or reduce health care costs could cause us to reduce the prices at which we market our drugs, which will reduce our gross margins and may harm our business. Various governments and third-party payors are trying to contain or reduce the costs of health care through various means. We expect that there will continue to be a number of legislative proposals to implement government controls. The announcement of proposals or reforms could cause us to reduce the prices at which we market our drugs, which will reduce our gross margins and may harm our business.

IF WE LOSE KEY PERSONNEL OR ARE UNABLE TO ATTRACT AND RETAIN ADDITIONAL, HIGHLY SKILLED PERSONNEL REQUIRED FOR THE EXPANSION OF OUR ACTIVITIES, OUR BUSINESS WILL SUFFER.

We are highly dependent upon our ability to attract and retain qualified personnel because of the specialized, scientific and international nature of our business. There is intense competition for qualified management, scientific and technical personnel in the pharmaceutical industry, and we may not be able to attract and retain the qualified personnel we need to grow and develop our business globally. In addition, numerous key responsibilities at SciClone are assigned to a small number of individuals. If we are unable to attract and retain qualified personnel as needed or promptly replace those employees who are critical to our product development and commercialization, the development and commercialization of our products would adversely be affected. At this time, we do not maintain "key person" life insurance on any of our key personnel.

WE MAY BE SUBJECT TO PRODUCT LIABILITY LAWSUITS AND OUR INSURANCE MAY BE INADEQUATE TO COVER DAMAGES.

Clinical trials or marketing of any of our current and potential products may expose us to liability claims from the use of these products. We currently carry product liability insurance. However, we cannot be certain that we will be able to maintain insurance on acceptable terms for clinical and commercial activities or that the insurance would be sufficient to cover any potential product liability claim or recall. If we fail to have sufficient coverage, our business, results of operation and cash flows could be adversely affected.

IF WE ARE UNABLE TO COMPLY WITH ENVIRONMENTAL LAWS AND REGULATIONS, OUR BUSINESS MAY BE HARMED.

We are subject to federal, state and local laws and regulations governing the use, manufacture, storage, handling and disposal of hazardous materials and waste products. We currently maintain a supply of hazardous materials at our facilities. In the event of an accident, we could be liable for any damages that result, and the liability could exceed our resources. While we outsource our research and development programs involving the controlled use of biohazardous materials, if in the future we conduct these programs ourselves, we might be required to incur significant cost to comply with the environmental laws and

regulations.

THE PRICE OF OUR COMMON STOCK HAS EXPERIENCED SUBSTANTIAL VOLATILITY AND MAY FLUCTUATE DUE TO FACTORS BEYOND OUR CONTROL.

There has been significant volatility in the market prices for publicly traded shares of pharmaceutical and biotechnology companies, including ours. The following factors may have an adverse impact on the market price of our common stock:

- significant negative changes in the major equity market indices;
- announcements of technical or product developments by us or our competitors;
- governmental regulation;
- health care legislation;
- public announcements regarding advances in the treatment of the disease states that we are targeting;
- public announcements from government officials relating to the biotechnology or pharmaceutical industries;
- patent or proprietary rights developments;
- changes in third-party reimbursement policies for our products; and
- fluctuations in our operating results.

The price of our common stock may not remain at or exceed current levels.

OUR INDEBTEDNESS MAY RESULT IN FUTURE LIQUIDITY PROBLEMS.

As of June 30, 2001, we had $5.6 million in convertible notes payable, of which $4.0 million were issued in the quarter ended December 31, 2000 and $1.6 million were issued in the quarter ended March 31, 2001. This increased indebtedness has and will continue to impact us by increasing expense and making it more difficult to obtain additional financing. The notes are payable five years after issuance unless converted into common stock at the sole discretion of the holder. If we are unable to satisfy our debt service requirements, substantial liquidity problems could result which would negatively impact our future prospects. As of June 30, 2001 we had cash and short-term investments of $20.2 million.

SUBSTANTIAL SALES OF OUR STOCK OR CONVERTIBLE SECURITIES MAY IMPACT THE MARKET PRICE OF OUR COMMON STOCK.

As of June 30, 2001, stock options for 5,065,696 shares of common stock were outstanding, of which options for 3,105,411 shares were exercisable, and there were warrants exercisable for 1,970,500 shares of common stock outstanding. Two issues of convertible notes payable as of June 30, 2001 were convertible into a total of 684,137 shares of common stock beginning one year from date of issuance of the notes. In addition, the investors were given the right to purchase senior unsecured convertible notes due December 2005 and March 2006. If issued, the additional notes will bear no interest (zero coupon) and will be convertible into 684,137 shares of our common stock. Upon exercise of options or warrants, or conversion of the notes, these issued shares of common stock will be freely tradable.

Future sales of substantial amounts of our common stock could adversely affect the market price of our common stock. Similarly, if we raise additional funds through the issuance of common stock or securities convertible into or

exercisable for common stock, the percentage ownership of our shareholders will be reduced and the price of our common stock may fall.

ISSUING PREFERRED STOCK WITH RIGHTS SENIOR TO THOSE OF OUR COMMON STOCK COULD ADVERSELY AFFECT HOLDERS OF COMMON STOCK.

Our charter documents give our board of directors the authority to issue additional series of preferred stock without a vote or action by our shareholders. The board also has the authority to determine the terms of preferred stock, including price, preferences and voting rights. The rights of holders of our common stock may be adversely affected by the rights granted to holders of preferred stock. For example, a series of preferred stock may be granted the right to receive a liquidation preference -- a pre-set distribution in the event SciClone is liquidated -- that would reduce the amount available for distribution to holders of common stock. In addition, the issuance of preferred stock could make it more difficult for a third party to acquire a majority of our outstanding voting stock. As a result, common shareholders could be prevented from participating in transactions that would offer an optimal price for their shares.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

The primary objective of our investment activities is to preserve principal while at the same time maximizing yields without significantly increasing risk. To achieve this objective, we invest in highly liquid and high quality debt securities. Our investments in debt securities are subject to interest rate risk. To minimize the exposure due to adverse shift in the interest rates we invest in short term securities and maintain an average maturity of less than one year. A hypothetical 60 basis point increase in interest rates would result in an approximate $99,659 decrease (0.6%) in fair value of our available-for-sale securities.

The potential change noted above is based on sensitivity analyses performed on our financial positions at June 30, 2001. Actual results may differ materially.

PART II. OTHER INFORMATION

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS

(c) Recent Sales of Unregistered Securities

None

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

We held our Annual Meeting of Shareholders on May 31, 2001 to elect seven (7) directors and to ratify the appointment of the independent auditors of our Company.

At the Annual Meeting, all of the nominees were elected as follows:

<TABLE>
<CAPTION>

	Votes	
	For	Withheld
<S>	<C>	<C>
Jere E. Goyan, Ph.D.	24,062,401	191,517
Donald R. Sellers	23,932,513	321,405
John D. Baxter, M.D.	24,117,792	136,126
Edwin C. Cadman, M.D.	24,083,417	170,501
Rolf H. Henel	24,117,092	136,826

Jon S. Saxe	24,055,523	198,395
Dean S. Woodman	24,061,346	192,572

</TABLE>

The shareholders then ratified the appointment of Ernst & Young LLP as independent auditors for the Company for the fiscal year ending December 31, 2001 with voting as follows: 24,057,379 for; 170,549, against; and 25,990 abstaining.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

3(i).1 Restated Articles of Incorporation (incorporated by reference from the Company's Registration Statement on Form S-1 (No. 33-45446), declared effective by the Commission on March 17, 1992).

3(i).2 Certificate of Amendment of Restated Articles of Incorporation (incorporated by reference from the Company's Registration Statement on Form S-8 (No. 33-66832) filed with the Commission on August 3, 1993).

3(i).3 Certificate of Determination (incorporated by reference from the Company's Current Report on Form 8-K filed on October 14, 1997).

3(ii).1 Bylaws (incorporated by reference from the Company's Registration Statement on Form S-1 (No. 33-45446), declared effective by the Commission on March 17, 1992).

3(ii).2 Certificate of Amendment of Bylaws (incorporated by reference from the Company's Registration Statement on Form S-8 (No. 33-66832) filed with the Commission on August 3, 1993).

4.2 Rights Agreement, dated as of July 25, 1997, between the Company and ChaseMellon Shareholder Services, LLC. (incorporated by reference to the Company's Current Report on Form 8-K filed on October 14, 1997).

4.3* 6% Convertible Note dated as of March 21, 2001 by the Company in favor of UBS AG, London Branch.

4.4* Option Agreement dated as of February 16, 2001 by and between the Company and UBS AG, London Branch.

4.5* Amendment No. 1 to Option Agreement dated as of March 21, 2001 by and between the Company and UBS AG, London Branch.

4.6* Amendment No. 1 to 6% Convertible Note Due 2005 and Amendment No. 2 to Option Agreement by and between the Company and UBS AG, London Branch.

10.1* Registration Rights Agreement dated as of February 16, 2001 by and between the Company and UBS AG, London Branch.

10.2* Materials Transfer Agreement dated as of December 21, 2000 executed as of January 8, 2001 by and between the Company and F. Hoffmann-La Roche Ltd.

10.3* Manufacturing Services Agreement by and between SciClone Pharmaceuticals International, Ltd. and ISF S.p.A.

10.4* Registration Rights Agreement dated as of October 26, 2000 by and between the Company and UBS AG, London Branch.

(b) Reports on Form 8-K

None.

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* Certain information in this exhibit has been omitted and filed separately with the Securities and Exchange Commission pursuant to a Confidential Treatment Request under 17 C.F.R. Sections 200.80, 200.83 and 230.406.

SIGNATURES

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

SCICLONE PHARMACEUTICALS, INC.
(Registrant)

Date: August 3, 2001

/s/ Richard A. Waldron

Richard A. Waldron
Chief Financial Officer
(Principal Financial & Accounting Officer)

EXHIBIT INDEX

<TABLE>
<CAPTION>

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	No. 2 to Option Agreement by and between the Company and UBS AG, London Branch.
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</TABLE>

EXHIBIT 4.6

CONFIDENTIAL TREATMENT REQUESTED -- EDITED COPY

AMENDMENT NO. 1 TO 6% CONVERTIBLE NOTE DUE 2005 AND AMENDMENT NO. 2 TO OPTION AGREEMENT

May 14, 2001

UBS AG, London Branch
c/o UBS Warburg LLC
677 Washington Blvd.
Stamford, CT 06901

Dear Sirs:

We refer to the 6% Convertible Note Due 2005, dated as of December 7, 2000, of SciClone Pharmaceuticals, Inc. (the "Company") in the amount of $4,000,000 (the "Convertible Note") and the Option Agreement between the Company and you, dated October 26, 2000 (the "Option Agreement"). Capitalized terms not defined herein have the meanings ascribed to them in the Convertible Note and the Option Agreement.

The Company and you hereby agree to amend the terms of the Convertible Note and the Option Agreement as follows:

(a) For purposes of the Convertible Note, the term "Repurchase Price" shall have the meaning set forth in Annex A attached hereto.

(b) For purposes of any Zero Coupon Convertible Note Due 2005 issued pursuant to the Option Agreement, (the current form of which is attached to the Amendment No.1 to the Option Agreement dated December 19, 2000), the term "Repurchase Price" shall have the meaning set forth in Annex B attached hereto; and any such Zero Coupon Convertible Note shall reflect the amendment made hereby.

In all respects not inconsistent with the terms and provisions of this letter, each of the Convertible Note and the Option Agreement shall continue to be in full force and effect in accordance with the terms and conditions thereof, and is hereby ratified, adopted, approved and confirmed.

CONFIDENTIAL TREATMENT REQUESTED -- EDITED COPY

This letter agreement may be executed by the parties hereto in any number of counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

Very truly yours,

SciClone Pharmaceuticals, Inc.

By:

Name: Donald R. Sellers
Title: President and Chief Executive Officer

Accepted as of the date hereof:

UBS AG, London Branch

By:

Name:
Title:

By:

Name:
Title:

3

CONFIDENTIAL TREATMENT REQUESTED -- EDITED COPY

ANNEX A

Repurchase Price means the sum of

(I) (a) in connection with any Change of Control involving a Stock Merger, 105% of the principal amount of this Security to be repurchased pursuant to this Section 3, and (b) in connection with any other Change of Control, the greater of (x)120% of the principal amount of this Security to be repurchased pursuant to this Section and (y) the amount determined pursuant to the following formula:

[****]

(II) accrued and unpaid interest on this Security to the date of payment.

4

CONFIDENTIAL TREATMENT REQUESTED -- EDITED COPY

ANNEX B

Repurchase Price means the sum of

(I) (a) in connection with any Change of Control involving a Stock Merger, 105% of the principal amount of this Security to be repurchased pursuant to this Section 3, and (b) in connection with any other Change of Control, the greater of (x)120% of the principal amount of this Security to be repurchased pursuant to this Section and (y) the amount determined pursuant to the following formula:

[****]

(II) accrued and unpaid interest on this Security to the date of payment.

EXHIBIT 10.4

CONFIDENTIAL TREATMENT REQUESTED -- EDITED COPY

REGISTRATION RIGHTS AGREEMENT

REGISTRATION RIGHTS AGREEMENT, dated as of October 26, 2000, by and between SciClone Pharmaceuticals, Inc., a California corporation (the "Company"), and UBS AG, London Branch (the "Purchaser") entered into in connection with the issuance of (i) 6% Convertible Notes due 2005 convertible into shares of Common Stock, no par value ("Common Stock"), of the Company pursuant to the Purchase Agreement referred to below and (ii) options to purchase Zero Coupon Convertible Notes due 2005 convertible into shares of Common Stock of the Company pursuant to the Option Agreement referred to below.

1. Certain Definitions.

For purposes of this Registration Rights Agreement, the following terms shall have the following respective meanings:

(a) "Commission" shall mean the Securities and Exchange Commission, or any other federal agency at the time administering the Exchange Act or the Securities Act, whichever is the relevant statute for the particular purpose.

(b) "Convertible Notes" shall mean the 6% Convertible Notes due 2005 of the Company to be issued and sold to the Purchaser pursuant to the Purchase Agreement, and any Zero Coupon Convertible Notes due 2005 of the Company that may be issued pursuant to the Option Agreement, and any Convertible Note issued in exchange therefor or in lieu thereof.

(c) "Effective Time" shall mean the date on which the Commission declares the Shelf Registration effective or on which the Shelf Registration otherwise becomes effective.

(d) "Exchange Act" shall mean the Securities Exchange Act of 1934, or any successor thereto, as the same shall be amended from time to time.

(e) "Initial Notes" means the up to $2,000,000 principal amount of Convertible Notes issued pursuant to the Purchase Agreement.

(f) "Issue Date" shall mean the date on which a Convertible Note is initially issued.

(g) "Option Agreement" means the Option Agreement of even date herewith between the Company and the Purchaser.

(h) "Option Notes" means the Convertible Notes, if any, issued pursuant to the Option Agreement.

(i) The term "person" shall mean a corporation, association, partnership, organization, business, individual, government or political subdivision thereof or governmental agency.

(j) "Purchase Agreement" means the Convertible Note Purchase Agreement of even date herewith between the Company and the Purchaser.

(k) "Registrable Securities" means any Shares, Option Notes or shares of Common Stock issuable in lieu thereof subject to registration under the Securities Act pursuant to this Agreement.

(l) "Registration Expenses" shall have the meaning assigned thereto in Section 4 hereof.

(m) "Securities Act" shall mean the Securities Act of 1933, or any successor thereto, as the same shall be amended from time to time.

(n) "Shares" means the shares of Common Stock issuable upon exercise of the Convertible Notes.

(o) "Shelf Registration" shall have the meaning assigned thereto in Section 2 hereof.

In addition, capitalized terms not defined herein shall have the meaning ascribed in the Convertible Notes.

2. Shelf Registration of Shares; Other Registrations.

(a) Not later than October 26, 2001, the Company shall file under the Securities Act a "shelf registration" statement providing for the registration of, and the sale on a continuous or delayed basis by the Purchaser of, all Shares issuable upon conversion of the Initial Notes, pursuant to Rule 415 under the Securities Act and/or any similar rule that may be adopted by the Commission (the "Shelf Registration"). The Company agrees to use its commercially reasonable efforts to cause the Shelf Registration to become or be declared effective no later than 45 calendar days after the filing thereof and to keep such Shelf Registration continuously effective for a period ending on the earliest to occur of (i) the second anniversary of the latest Issue Date of any Initial Note, (ii) notification to the Company by the Purchaser that it has sold all Shares issuable upon conversion of the Initial Notes so owned by it, or

(iii) such time as the Purchaser may sell all of such Shares pursuant to Rule 144(k) under the Securities Act. The Company further agrees, if necessary, to supplement or make amendments to the Shelf Registration, if required by the rules, regulations or instructions applicable to the registration form used by the Company for such Shelf Registration or by the Securities Act or rules and regulations thereunder for shelf registration, and the Company agrees to furnish to the Purchaser a copy of any such supplement or amendment prior to its being used and/or filed with the Commission, and will not file any such supplement or amendment to which the Purchaser reasonably objects.

(b) Notwithstanding the foregoing, following the effectiveness of the Shelf Registration, the Company may, at any time, suspend the effectiveness of such Shelf Registration for up to 60 days, as appropriate (a "Suspension Period"), by giving notice to the Purchaser, if the Company shall have determined that the Company may be required to disclose any material corporate development which disclosure may have a material adverse effect on the Company. The Company will use its commercially reasonable efforts to minimize the length of any Suspension Period. Notwithstanding the foregoing, no more than one Suspension Period may occur within any 180 day period. The Purchaser agrees that, upon receipt of any notice from the

Company of a Suspension Period, the Purchaser shall forthwith discontinue disposition of shares covered by the Shelf Registration until the Purchaser (i) is advised in writing by the Company that the use of the applicable prospectus may be resumed, (ii) has received copies of a supplemental or amended prospectus, if applicable, and (iii) has received copies of any additional or supplemental filings which are incorporated or deemed to be incorporated by reference in such prospectus.

(c) Not later than the earlier of (a) July 31, 2005 or (b) 30 days after any issuance of any Option Notes, or shares of Common Stock in lieu thereof pursuant to the Option Agreement, the Company shall file under the Securities Act a "shelf registration" statement providing for the registration of, and the sale on a continuous or delayed basis by the Purchaser of, such Option Notes, any Shares issuable upon conversion thereof or in payment thereof, and/or shares of Common Stock issued in lieu thereof, pursuant to Rule 415 under the Securities Act and/or any similar rule that may be adopted by the Commission. The Company agrees to use its commercially reasonable efforts to cause such shelf registration to become or be declared effective no later than 30 calendar days after the required filing date thereof and to keep such shelf registration continuously effective for a period ending on the earliest to occur of (i) the 180th day after such issuance of the Option Notes or shares of Common Stock in lieu thereof, (ii) notification to the Company by the Purchaser that it has sold all such Option Notes or shares of Common Stock so owned by it, or

(iii) such time as the Purchaser may sell all of such Option Notes or shares of Common Stock pursuant to Rule 144(k) under the Securities Act. The Company further agrees, if necessary, to supplement or make amendments to the such shelf registration statement, if required by the rules, regulations or instructions applicable to the registration form used by the Company for such shelf registration or by the Securities Act or rules and regulations thereunder for shelf registration, and the Company agrees to furnish to the Purchaser a copy of any such supplement or amendment prior to its being used and/or filed with the Commission, and will not file any such supplement or amendment to which the Purchaser reasonably objects.

3. Registration Procedures.

(a) In connection with any obligation of the Company to register the Registrable Securities, the Company shall use its commercially reasonable efforts to effect or cause such registration to permit the sale of the Registrable Securities by the Purchaser in accordance with the intended method or methods of distribution thereof described in the applicable registration statement. In connection therewith, the Company shall, within the time specified in Section 2 above:

(i) prepare and file with the Commission a registration statement on any form which may be utilized by the Company and which shall permit the disposition of the Registrable Securities in accordance with the intended method or methods thereof, as specified in writing by the Purchaser;

(ii) comply with the provisions of the Securities Act with respect to the disposition of all of the Registrable Securities covered by such registration statement in accordance with the intended methods of disposition by the Purchaser set forth in such registration statement;

(iii) provide (A) the Purchaser, (B) the underwriters (which term, for purposes of this Agreement, shall include a person deemed to be an underwriter within the meaning of Section 2(a)(11) of the Securities Act), if any, thereof, (C) the sales or placement agent, if any, therefor, (D) counsel for such underwriters or agent, and (E) one counsel for the Purchaser the opportunity to participate in the preparation of such registration statement, each prospectus included therein or filed with the Commission, and each amendment or supplement thereto;

(iv) for a reasonable period prior to the filing of such registration statement, and throughout the period specified in Section 2 hereof, make available for inspection by the parties referred to in Section 3(a)(iii) above who shall certify to the Company that they have a current intention to

sell the Registrable Securities pursuant to the registration statement such financial and other information and books and records of the Company, and cause the officers, employees, counsel and independent certified public accountants of the Company to respond to such inquiries, as shall be reasonably necessary, in the judgment of the respective counsel referred to in such Section, to conduct a reasonable investigation within the meaning of Section 11 of the Securities Act; provided, however, that each such party shall be required to maintain in confidence and not to disclose to any other person any information or records provided by the Company until such time as (A) such information becomes a matter of public record (whether by virtue of its inclusion in such registration statement or otherwise), or (B) such person shall be required so to disclose such information pursuant to the subpoena or order of any court or other governmental agency or body having jurisdiction over the matter (subject to the requirements of such order, and only after such person shall have given the Company prompt prior written notice of such requirement), or (C) such information is required to be set forth in such registration statement or the prospectus included therein or in an amendment to such registration statement or an amendment or supplement to such prospectus in order that such registration statement, prospectus, amendment or supplement, as the case may be, does not contain an untrue statement of a material fact or omit to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading;

(v) promptly notify the Purchaser, the sales or placement agent, if any, therefor and the managing underwriter or underwriters, if any, thereof and confirm such advice in writing, (A) when such registration statement or the prospectus included therein or any prospectus amendment or supplement or post-effective amendment has been filed, and, with respect to such registration statement or any post-effective amendment, when the same has become effective, (B) of any comments by the Commission and by the Blue Sky or securities commissioner or regulator of any state with respect thereto or any request by the Commission for amendments or supplements to such registration statement or prospectus or for additional information, (C) of the issuance by the Commission of any stop order suspending the effectiveness of such registration statement or the initiation or overt threatening of any proceedings for that purpose, (D) if at any time the representations and warranties of the Company contemplated by Section 5 hereof cease to be true and correct in all material respects, (E) of the receipt by the Company of any notification with respect to the suspension of the qualification of the Registrable Securities for sale in any jurisdiction or the initiation or overt threatening of any proceeding for such purpose, or (F) at any time when a prospectus is required to be delivered under the Securities Act, if such registration statement, prospectus, prospectus amendment or supplement or post-effective amendment, or any document incorporated by

reference in any of the foregoing, contains an untrue statement of a material fact or omits to state any material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing;

(vi) use its best efforts to obtain the withdrawal of any order suspending the effectiveness of such registration statement or any post-effective amendment thereto at the earliest practicable date;

(vii) if requested by any managing underwriter or underwriters, any placement or sales agent or the Purchaser, promptly incorporate in a prospectus supplement or post-effective amendment such information as is required by the applicable rules and regulations of the Commission that such managing underwriter or underwriters, such agent or the Purchaser specifies should be included therein relating to the terms of the sale of such Registrable Securities, including, without limitation, information with respect to the number of Registrable Securities being sold by the Purchaser, or agent or to any underwriters, the name and description of the Purchaser, agent or underwriter, the offering price of such Registrable Securities and any discount, commission or other compensation payable in respect thereof, the purchase price being paid therefor by such underwriters and with respect to any other terms of the offering of the Registrable Securities to be sold by the Purchaser or agent or to such underwriters; and make all required filings of such prospectus supplement or post-effective amendment promptly after notification of the matters to be incorporated in such prospectus supplement or post-effective amendment;

(viii) furnish to the Purchaser, each placement or sales agent, if any, therefor, each underwriter, if any, thereof and the respective counsel referred to in Section 3(a)(iii) a copy of such registration statement in the form in which it became effective, each such amendment and supplement thereto (in each case including all exhibits thereto and documents incorporated by reference therein) and such number of copies of such registration statement (excluding exhibits thereto and documents incorporated by reference therein unless specifically so requested by the Purchaser, agent or underwriter, as the case may be) and of the prospectus included in such registration statement (including each preliminary prospectus and any summary prospectus), in conformity with the requirements of the Securities Act, and such other documents, as the Purchaser, such agent, if any, and such underwriter, if any, may reasonably request in order to facilitate the offering and disposition of the Registrable Securities owned by the Purchaser, offered or sold by such agent or underwritten by such underwriter and to permit such Purchaser or such agent and underwriter to satisfy the prospectus delivery requirements of the Securities Act; and the Company hereby consents to the use of such prospectus (including such preliminary and summary prospectus) and any amendment or supplement thereto by the Purchaser and by any such agent and underwriter, in each case in the form most recently provided to such party by the Company, in connection with the offering and sale of the Registrable Securities covered by the prospectus (including such preliminary and summary prospectus) or any supplement or amendment thereto;

(ix) use its commercially reasonable efforts to (A) register or qualify the Registrable Securities to be included in such registration statement under such securities laws or blue sky laws of such jurisdictions as the Purchaser and each placement or sales agent, if any, therefor and underwriter, if any, thereof shall reasonably request, (B) keep such registrations or

qualifications in effect and comply with such laws so as to permit the continuance of offers, sales and dealings therein in such jurisdictions during the respective periods such registration statements are required to remain effective under Section 2 above and for so long as may be necessary to enable the Purchaser or any agent or underwriter to complete its distribution of Registrable Securities pursuant to such registration statement and (C) take any and all other actions as may be reasonably necessary or advisable to enable the Purchaser, such agent, if any, and such underwriter, if any, to consummate the disposition in such jurisdictions of such Registrable Securities; provided, however, that the Company shall not be required for any such purpose to (I) qualify as a foreign corporation in any jurisdiction wherein it would not otherwise be required to qualify but for the requirements of this Section 3(a)(ix) or (II) consent to general service of process in any such jurisdiction;

(x) use its commercially reasonable efforts to obtain the consent or approval of each governmental agency or authority, whether federal, state or local, which may be required to effect the Shelf Registration or the offering or sale in connection therewith or to enable the Purchaser to offer, or to consummate the disposition of, its Registrable Securities;

(xi) cooperate with the Purchaser and the managing underwriters, if any, to facilitate the timely preparation and delivery of any certificates representing Registrable Securities to be sold, which certificates shall be printed, lithographed or engraved, or produced by any combination of such methods, and which shall not, once sold under such registration statement, bear any restrictive legends; and, in the case of an underwritten offering, enable such Registrable Securities to be in such denominations and registered in such names as the managing underwriters may request at least two business days prior to any sale of the Registrable Securities:

(xii) enter into one or more underwriting agreements, engagement letters, agency agreements or similar agreements, as appropriate, including (without limitation) customary provisions relating to indemnification and contribution, and take such other actions in connections therewith as the Purchaser shall request in order to expedite or facilitate the disposition of the Registrable Securities;

(xiii) notify the Purchaser in writing of any proposal by the Company to amend or waive any provision of these Registration Rights pursuant to Section 7(g) hereof and of any amendment or waiver effected pursuant thereto, each of which notices shall contain the text of the amendment or waiver proposed or effected, as the case may be;

(xiv) in the event that any broker-dealer registered under the Exchange Act shall underwrite any Registrable Securities or participate as a member of an underwriting syndicate or selling group or "assist in the distribution" (within the meaning of the Rules of Fair Practice and the By-Laws of the National Association of Securities Dealers, Inc. ("NASD") thereof, whether as an underwriter, a placement or sales agent or a broker or dealer in respect thereof, or otherwise, assist such broker-dealer in complying with the requirements of such Rules and By-Laws, including, without limitation, by providing such information to such broker-dealer as may be required in order for such broker-dealer to comply with the requirements of the Rules of Fair Practice of the NASD;

(xv) comply with all applicable rules and regulations of the Commission, and make generally available to its security holders as soon as practicable but in any event not later than eighteen months after the effective date of such registration statement, an earning statement of the Company and its subsidiaries complying with Section 11(a) of the Securities Act (including, at the option of the Company, Rule 158 thereunder); and

(xvi) in the case of Shares or other shares of Common Stock, use its commercially reasonable efforts to have the Shares or such other shares approved for trading on the Nasdaq National Market.

(b) In the event that the Company would be required, pursuant to Section 3(a)(v)(F) above, to notify the Purchaser, the placement or sales agent, if any, therefor and the managing underwriters, if any, thereof, the Company shall, as promptly as practicable, prepare and furnish to the Purchaser, to each placement or sales agent, if any, and to each underwriter, if any, a reasonable number of copies of a prospectus supplemented or amended in form and substance reasonably satisfactory to them, so that, as thereafter delivered to purchasers of Registrable Securities, such prospectus shall not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. The Purchaser agrees that upon receipt of any notice from the Company pursuant to Section 3(a)(v)(F) hereof, the Purchaser shall forthwith discontinue the disposition of Registrable Securities pursuant to the registration statement applicable to such Registrable Securities until the Purchaser shall have received copies of such amended or supplemented

prospectus, and if so directed by the Company, the Purchaser shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies, then in the Purchaser's possession of the prospectus covering such Registrable Securities at the time of receipt of such notice.

(c) The Company may require the Purchaser to furnish to the Company in writing such information regarding the Purchaser and the Purchaser's intended method of distribution of such Registrable Securities as the Company may from time to time reasonably request in writing, but only to the extent that such information is required in order to comply with such Securities Act. The Purchaser agrees to notify the Company in writing as promptly as practicable of any inaccuracy or change in information previously furnished by the Purchaser to the Company or of the occurrence of any event in either case as a result of which any prospectus relating to such registration contains or would contain an untrue statement of a material fact regarding the Purchaser or the Purchaser's intended method of distribution of such Registrable Securities or omits to state any material fact regarding the Purchaser or the Purchaser's intended method of distribution of such Registrable Securities required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and promptly to furnish to the Company in writing any additional information required to correct and update any previously furnished information or required so that such prospectus shall not contain, with respect to the Purchaser or the distribution of such Registrable Securities, an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing. The Purchaser agrees that upon delivering any written notice to the Company pursuant to this Section 3(c), the Purchaser shall forthwith discontinue the disposition of Registrable Securities pursuant to the registration statement applicable to such Registrable Securities until

the Purchaser shall have the received copies of such amended or supplemented prospectus, and if so directed by the Company, the Purchaser shall deliver to the Company (at the Company's expense) all copies, other than permanent file copies then in the Purchaser's possession of the prospectus covering such Registrable Securities at the time of receipt of such notice.

4. Registration Expenses.

The Company agrees to bear and to pay or cause to be paid promptly upon request being made therefor all expenses incident to the Company's performance of or compliance with this Agreement, including, without limitation, (i) all Commission and any NASD registration and filing fees and expenses, (ii) all fees and expenses in connection with the qualification of the Registrable

Securities for offering and sale under the State securities and blue sky laws referred to in Section 3(a)(x) hereof, including reasonable fees and disbursements, not to exceed $5,000, of counsel for the placement or sales agent or underwriters in connection with such qualifications, (iii) all fees and expenses in connection with the approval for trading of the Shares or other shares of Common Stock on the Nasdaq National Market, (iv) all expenses relating to the preparation, printing, distribution and reproduction of each registration statement required to be filed hereunder, each prospectus included therein or prepared for distribution pursuant hereto, each amendment or supplement to the foregoing, the certificates representing the Registrable Securities and all other documents relating hereto, (v) internal expenses (including, without limitation, all salaries and expenses of the Company's officers and employees performing legal or accounting duties), and (vi) fees, disbursements and expenses of counsel and independent certified public accountants of the Company (including the expenses of any opinions or "cold comfort" letters required by or incident to such performance and compliance) (collectively, the "Registration Expenses"). Notwithstanding the foregoing, the Purchaser shall pay all agency fees and commissions and underwriting discounts and commissions attributable to the sale of the Registrable Securities and the fees and disbursements of any counsel or other advisors or experts retained by the Purchaser.

5. Representations and Warranties.

The Company represents and warrants to, and agrees with, the Purchaser that:

(a) Each registration statement covering Registrable Securities and each prospectus (including any preliminary or summary prospectus) contained therein or furnished pursuant to Section 3(a)(ix) hereof and any further amendments or supplements to any such registration statement or prospectus, when it becomes effective or is filed with the Commission, as the case may be, and, in the case of an underwritten offering of Registrable Securities, at the time of the closing under the underwriting agreement relating thereto will conform in all material respects to the requirements of the Securities Act, and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading; and at all times subsequent to the Effective Time when a prospectus would be required to be delivered under the Securities Act, other than from (i) such time as a notice has been given to the Purchaser pursuant to Section 3(a)(vi)(F) hereof until (ii) such time as the Company furnishes an amended or supplemented prospectus pursuant to Section 3(b) hereof, each such registration statement, and each prospectus (including any summary prospectus) contained therein or furnished pursuant to Section 3(c)(ix) hereof, as then amended

or supplemented, will conform in all material respects to the requirements of the Securities Act, and will not contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Purchaser expressly for use therein.

(b) Any documents incorporated by reference in any prospectus referred to in Section 5(a) hereof, when they become or became effective or are or were filed with the Commission, or if amended, when amended, as the case may be, will conform or conformed in all material respects to the requirements of the Exchange Act, and none of such documents will contain or contained an untrue statement of a material fact or will omit or omitted to state a material fact required to be stated therein or necessary to make the statements therein not misleading; provided, however, that this representation and warranty shall not apply to any statements or omissions made in reliance upon and in conformity with information furnished in writing to the Company by the Purchaser expressly for use therein.

6. Indemnification.

(a) Indemnification by the Company. Upon the registration of Registrable Securities pursuant to Section 2 hereof, and in consideration of the agreements of the Purchaser contained herein, and as an inducement to the Purchaser to purchase the Convertible Notes and enter into the Option Agreement, the Company shall, and it hereby agrees to, indemnify and hold harmless the Purchaser and each person who participates as a placement or sales agent or as an underwriter in any offering or sale of such Registrable Securities against any losses, claims, damages or liabilities, joint or several, to which the Purchaser or any such agent or underwriter may become subject under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in any registration statement under which such Registrable Securities were registered under the Securities Act, or any preliminary, final or summary prospectus contained therein or furnished by the Company to the Purchaser, agent or underwriter, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, and the Company shall, and it hereby agrees to, reimburse the Purchaser, such agent and such underwriter for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such action or claim as such expenses are incurred; provided, however, that the Company shall not be liable to any such person in any such case to the extent that any such loss, claim, damage or liability arises out of or is based upon an untrue statement or alleged untrue statement or omission or alleged omission made in such registration statement, or preliminary, final or summary prospectus, or amendment or supplement in reliance upon and in conformity with written information furnished to the Company by such person expressly for use

therein.

(b) Indemnification by the Purchaser and any Agents and Underwriters. The Company may require, as a condition to including any Registrable Securities in any registration statement filed pursuant to Section 2 hereof and to entering into any underwriting agreement with respect thereto, that the Company shall have received an undertaking reasonably

satisfactory to it from the Purchaser and each underwriter named in any such underwriting agreement, severally and not jointly, to (i) indemnify and hold harmless the Company against any losses, claims, damages or liabilities to which the Company may become subject, under the Securities Act or otherwise, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon an untrue statement or alleged untrue statement of a material fact contained in such registration statement, or any preliminary, final or summary prospectus contained therein or furnished by the Company to the Purchaser, agent or underwriter, or any amendment or supplement thereto, or arise out of or are based upon the omission or alleged omission to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, in each case to the extent, but only to the extent, that such untrue statement or alleged untrue statement or omission or alleged omission was made in reliance upon and in conformity with written information furnished to the Company by the Purchaser or underwriter expressly for use therein, and (ii) reimburse the Company for any legal or other expenses reasonably incurred by the Company in connection with investigating or defending any such action or claim as such expenses are incurred.

(c) Notices of Claims, Etc. Promptly after receipt by an indemnified party under subsection (a) or (b) above of written notice of the commencement of any action, such indemnified party shall, if a claim in respect thereof is to be made against an indemnifying party pursuant to the indemnification provisions of or contemplated by this Section 6, notify such indemnifying party in writing of the commencement of such action; but the omission so to notify the indemnifying party shall not relieve it from any liability which it may have to any indemnified party other than under the indemnification provisions of or contemplated by Section 6(a) or 6(b) hereof. In case any such action shall be brought against any indemnified party and it shall notify an indemnifying party of the commencement thereof, such indemnifying party shall be entitled to participate therein and, to the extent that it shall wish, jointly with any other indemnifying party similarly notified, to assume the defense thereof, with counsel satisfactory to such indemnified party (who shall not, except with the consent of the indemnified party, be counsel to the indemnifying party), and, after notice from the indemnifying party to such indemnified party of its election so to assume the defense thereof, such indemnifying party shall not be

liable to such indemnified party for any legal expenses of other counsel or any other expenses, in each case subsequently incurred by such indemnified party, in connection with the defense thereof other than reasonable costs of investigation.

(d) Contribution. Each party hereto agrees that, if for any reason the indemnification provisions contemplated by Section 6(a) or Section 6(b) are unavailable to or insufficient to hold harmless an indemnified party in respect of any losses, claims, damages or liabilities (or actions in respect thereof) referred to therein, then each indemnifying party shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages or liabilities (or actions in respect thereof) in such proportion as is appropriate to reflect the relative benefits received by indemnified party on the one hand and the indemnifying party on the other from any offering of the Registrable Securities. If, however, the allocation provided by the immediately preceding sentence is not permitted by applicable law or if the indemnified party failed to give the notice required under subsection (c) above, then each indemnifying party shall contribute to such amount paid or payable by such indemnified party in such proportion as is appropriate to reflect not only such relative benefits but also the relative fault of the indemnifying party and the indemnified party in connection with the statements or

omissions which resulted in such losses, claims, damages or liabilities (or actions in respect thereof), as well as any other relevant equitable considerations. The relative benefits received by the Company on the one hand and the Purchaser on the other shall be deemed to be in the same proportion as the total purchase price received by the Company upon issuance of Convertible Notes to the Purchaser bears to the difference between the proceeds from the offering of the Registrable Securities received by the Purchaser and such purchase price. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by such indemnifying party or by such indemnified party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission. The parties hereto agree that it would not be just and equitable if contributions pursuant to this Section 6(d) were determined by pro rata allocation (even if the Purchaser or any agents or underwriters or all of them were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in this Section 6(d). The amount paid or payable by an indemnified party as a result of the losses, claims, damages, or liabilities (or actions in respect thereof) referred to above shall be deemed to include any legal or other fees or expenses reasonably incurred by such indemnified party in connection with

investigating or defending any such action or claim. Notwithstanding the provisions of this Section 6(d), absent fraudulent misrepresentation by the Purchaser, the Purchaser shall not be required to contribute any amount in excess of the amount by which the dollar amount of the proceeds received by the Purchaser from the sale of any Registrable Securities (after deducting any fees, discounts and commissions applicable thereto) exceeds the amount of any damages which the Purchaser have otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission, and absent fraudulent misrepresentation by an underwriter, no such underwriter shall be required to contribute any amount in excess of the amount by which the total price at which the Registrable Securities underwritten by it and distributed to the public were offered to the public exceeds the amount of any damages which such underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation. The Purchaser's and any underwriters' obligations in this Section 6(d) to contribute shall be several in proportion to the principal amount of Registrable Securities registered or underwritten, as the case may be, by them and not joint.

(e) The obligations of the Company under this Section 6 shall be in addition to any liability which the Company may otherwise have and shall extend, upon the same terms and conditions, to each officer, director and partner of the Purchaser, any agent and any underwriter and each person, if any, who controls the Purchaser or any agent or underwriter within the meaning of the Securities Act; and the obligations of the Purchaser and any agents and underwriters contemplated by this Section 6 shall be in addition to any liability which the Purchaser or any such agent or underwriter, respectively, may otherwise have and shall extend, upon the same terms and conditions, to each officer and director of the Company (including any person who, with his consent, is named in any registration statement as about to become a director of the Company) and to each person, if any, who controls the Company within the meaning of the Securities Act.

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7. Miscellaneous.

(a) No Inconsistent Agreements. The Company represents, warrants, covenants and agrees that it has not granted, and shall not grant, registration rights with respect to shares of Common Stock or any other securities which would be inconsistent with the terms contained in this Agreement.

(b) Specific Performance. The parties hereto acknowledge that there may be no adequate remedy at law if any party fails to perform any of its

obligations hereunder and that each party may be irreparably harmed by any such failure, and accordingly agree that each party, in addition to any other remedy to which it may be entitled at law or in equity, shall be entitled to compel specific performance of the obligations of any other party under this Agreement in accordance with the terms and conditions hereof, in any court of the United States or any State thereof having jurisdiction.

(c) Notices. Any notice or other communication required or permitted to be given hereunder shall be deemed effectively given when personally delivered, telexed, transmitted by facsimile or mailed by pre-paid certified mail, return receipt requested, or by telephone when confirmed in writing by one of the preceding methods addressed as follows (as applicable):

If to the Company, to:

SciClone Pharmaceuticals, Inc.
901 Mariner's Island Blvd., #205
San Mateo, California 94404

[****]
with a copy to:

Gray Cary Ware & Freidenrich
400 Hamilton Avenue
Palo Alto, California 94301

[****]

If to the Purchaser, to:

UBS AG, London Branch
[****]

[****]

[****]

[****]

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[****]

[****]

or to such other address or number and to the attention of such other person as

either party may designate by written notice to the other party. Notice shall be effective upon actual receipt.

(d) Survival. The respective indemnities, agreements, representations, warranties and each other provision set forth this Agreement or made pursuant hereto shall remain in full force and effect regardless of any investigation (or statement as to the results thereof) made by or on behalf of the Purchaser, any director, officer or partner of the Purchaser, any agent or underwriter or any director, officer or partner thereof, or any controlling person of any of the foregoing.

(e) Law Governing. This Agreement shall be governed by and construed in accordance with the laws of the State of New York.

(f) Headings. The descriptive headings of the several Sections and paragraphs of this Agreement are inserted for convenience only, do not constitute a part of this Agreement and shall not affect in any way the meaning or interpretation of this Agreement.

(g) Entire Agreement; Amendments. This Agreement and the other writings referred to herein or delivered pursuant hereto which form a part hereof contain the entire understanding of the parties with respect to its subject matter. This Agreement supersedes all prior agreements and understandings between the parties with respect to its subject matter. This Agreement may be amended and the observance of any term of this Agreement may be waived (either generally or in a particular instance and either retroactively or prospectively) only by a written instrument duly executed by the Company and the Purchaser.

(h) Assignment. In connection with any permitted transfer of the Convertible Notes or any portion thereof in a principal amount of not less than $2,000,000 the Purchaser may assign its rights hereunder in respect of such Convertible Notes to the transferee. Upon such assignment the transferee shall, insofar as the transferred Convertible Notes are concerned, be entitled to all of the rights, and be subject to all of the obligations, of the Purchaser under this Agreement, and all references to the "Purchaser" herein shall thereafter be deemed to include the Purchaser, or such transferee, or both, as the circumstances warrant.

(i) Counterparts. This agreement may be executed by the parties counterparts, each of which shall be deemed to be an original, but all such respective counterparts shall together constitute one and the same instrument.

Agreed to and accepted as of the date referred to above.

SciClone Pharmaceuticals, Inc.

By: _____

Name: Donald R. Sellers
Title: President and Chief Executive Officer

UBS AG, LONDON BRANCH

By: _____

Name: _____

Title: _____