

SciClone

Ticker:

SCLN

Current Price:

\$2.87 (intra-day)

Recommendation:

BUY

Price Target: \$6

Time Frame:

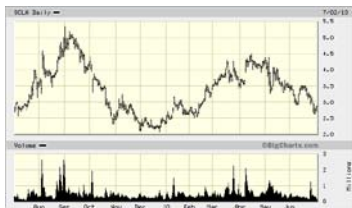
12 Months

Jason Kolbert

(212) 417-8287

kolbert@nationalsecurities.com

LAST	\$2.87
ANNHIGH	\$5.33
ANNLOW	\$2.09
Shares O/S-Diluted (model)	46,451
Market Capitalization (mln)	\$133
100-Day Average Daily Volume	528
Short Interest	0%
Debt/Total Cap	0%
Net Cash/Share \$	0.62
P/E (12-month forward)	7.5



Investment Thesis

SciClone had a press release earlier in the week that didn't seem to attract much attention. We spoke with management today and find the results very interesting and impressive. In essence, Zadaxin was added to a Novartis monovalent vaccine against H1N1 that included an adjuvant. The target patient population were hemodialysis patients which tend to be immune-compromised. The thinking here is that if Zadaxin can show a better response with this potent vaccine in these patients, that is really has an effect. The good news is it did. At the judgment criteria that would be used for approval, 21 days, patients showed a significant rise (seroconversion) in antibody titers. The only dark side to this otherwise bright cloud was that the response was not durable out to 84 and 168 days. With that said, the response suggests additional boosting might make a big difference. Our Conclusion: Zadaxin as a boosting agent for vaccines represents upside to the SCLN story that is not at all factored into our model. We remain steadfast and positive in the outlook for the Company.

Highlights

Enhanced Immune Response is Seen ! SciClone Pharmaceuticals and their partner Sigma-Tau S.p.A., announced final results from a clinical study evaluating the potential of ZADAXIN(R) (thymalfasin) to enhance immune response to the MF59 adjuvanted H1N1 influenza monovalent vaccine, Focetria(R) from Novartis. As previously reported by investigators, ZADAXIN treatment given with the H1N1 vaccine led to statistically significant increases in the percentage of subjects who seroconverted when evaluated at both 21 days and 42 days after vaccination, as compared with vaccine alone. We note that the FDA criteria for approval is day 21 assessment. Seroconversion -- a significant rise in specific antibody titers against H1N1 influenza -- is defined as a four-fold or greater change in titers from baseline. A higher seroconversion rate is indicative of the robustness of a patient's immune response.

The Response was Robust when it counted but in this trial was not durable at day 84 / 168. When evaluated at 84 and 168 days after vaccination, the seroconversion rates were similar for patients receiving ZADAXIN treatment and those receiving vaccine alone. These data indicate that the enhancement effect of ZADAXIN, while significantly higher in the critical first six weeks following vaccination, was reduced at later time points and no longer significantly different compared to the vaccine alone. To us this suggests an opportunity for additional clinical work to examine additional boosters to create a more durable response.

Future Potential is Positive. The fact that Zadaxin showed a significant response above Focetria® with adjuvant in H1N1 suggests to us tremendous potential as we view Focetria + adjuvant as a highly effective H1N1 vaccine. The potential for Zadaxin to be developed as a booster for H5N1 (Avian Flu) where the vaccines are less effective, (H5N1 typically requires 6x protein, 90 micrograms) versus traditional 15 micrograms in other vaccines tells us there may be a significant opportunity here. We see the US government as a potential buyer for Zadaxin around the BioDefense theme. We also see potential for Zadaxin to work synergistically in the emerging field of cancer vaccines, aka: Dendron or even PrimaBioMed (PPRO-AUX, Ovarian Cancer). Stay Tuned !

Fundamental Research:
Biotechnology
Friday, July 02, 2010

Valuation: We have updated our income statement to include Ondansetron. The result is our DCF (FCFF) valuation metric climbs to \$8. We triangulate this with our discounted EPS Model (2011), and our Sum of the Parts Model which provides an average of \$6 per share target. Our model includes the key assumption that Zadaxin continues to grow in China. We are also including DC Bead sales in our model in China. Beyond DC Bead and Ondansetron we assume no other pipeline value (in our FCFF or EPS Discounted model). We do expect results for SCV-07 proof of concept data in HCV and Mucositis this quarter and that could be a significant event if the data is positive.

Average	\$	6
Price Target	\$	8
Year		2009

DCF Valuation Using FCFF (mn):

	2009	2010	2011	2012	2013	2014	2015
units (millions - \$)	2009E	2010E	2011E	2012E	2013E	2014E	2015E
EBIT	12,595	18,143	26,069	38,092	56,957	77,352	97,567
Tax Rate	0%	0%	15%	22%	25%	31%	36%
EBIT(1-t)	12,595	18,143	22,159	29,712	42,717	53,373	62,443
CapEx	(261)	(266)	(272)	(277)	(283)	(288)	(294)
Depreciation	537	591	614	639	664	691	719
Change in NWC	3,914	(1,804)	(9,031)	-	-	-	-
FCFF	8,957	20,271	31,533	30,074	43,099	53,776	62,867
PV of FCFF	8,957	17,627	23,843	19,774	24,642	26,736	27,179
Discount Rate	15%						
Long Term Growth Rate	2%						
Terminal Cash Flow	493,267						
Terminal Value YE2009	213,253						
NPV	362,012						
NPV-Debt	907						
Shares out (thousands) 2Q-09E	46,266						
NPV Per Share	\$ 8						

Source: National Securities estimates

Current Year	2009
Year of EPS	2011
Earnings Multiple	15
Discount Factor	20%
Selected Year EPS	\$ 0.48
NPV	\$ 5.00

Source: National Securities estimates

	2011 EPS	Discount Rate and Earnings Multiple Varies, Year is Constant					
		5.0	20%	25%	30%	35%	40%
Earnings Multiple	10	\$3.33	\$3.07	\$2.84	\$2.63	\$2.45	\$ 2.28
	15	\$5.00	\$4.60	\$4.26	\$3.95	\$3.67	\$ 3.42
	20	\$6.66	\$6.14	\$5.67	\$5.26	\$4.89	\$ 4.56
	25	\$8.33	\$7.67	\$7.09	\$6.58	\$6.12	\$ 5.70
	30	\$9.99	\$9.21	\$8.51	\$7.89	\$7.34	\$ 6.84
	35	\$11.66	\$10.74	\$9.93	\$9.21	\$8.56	\$ 7.98
	40	\$13.32	\$12.28	\$11.35	\$10.52	\$9.79	\$ 9.12
	45	\$14.99	\$13.81	\$12.77	\$11.84	\$11.01	\$ 10.26

SCLN-Sum of the Parts	LT Gr	Discount Rate	Yrs. to Mkt	% Success	Peak Sales MM's	Term Val
ZADAXIN - China & Curr Indications	3%	25%	0	100%	\$97	\$441
NPV						\$2.86
ZADAXIN - MM, US Royalty Rate 15%	3%	50%	5	25%	\$100	\$213
NPV						\$0.05
SCV-07 Mucositis	3%	20%	6	25%	\$200	\$1,176
NPV						\$0.64
SCV-07 HCV	3%	20%	6	25%	\$200	\$1,176
NPV						\$0.64
DC Bead - China	2%	50%	1	85%	\$27	\$57
NPV						\$0.21
OnDansetron	5%	20%	2	90%	\$20	\$133
NPV						\$0.54
Royalty Products					Peak Royalty/ Milestones (MM's)	
Zadaxin Collaboration Milestone	3%	50%	4	25%	\$100	\$213
NPV						\$0.07
Net Margin						30%
MM Shrs OS						46
Total						\$5
Net Cash/Shr						\$0.47
Grand Total						\$5.5

Source: National Securities estimates

Risks to Price Target: The Company's risks fall into several categories around product development (clinical risks), commercial development and the competitive landscape, and financial risk around the Company's balance sheet. Specifically, we see the key risks near-term around Zadaxin. The company may be unable to find a partner to develop Zadaxin (thymalfsin) for Multiple Myeloma. Zadaxin sales remain at risk for generic erosion which could occur at a more significant level. SCV-07 may fail to demonstrate proof of concept in the current Mucositis and Hepatitis C Studies.

Fundamental Research:
Biotechnology
Friday, July 02, 2010

SciClone Pharmaceuticals, Inc. Income Statement (\$ '000)

SCLN: YE Dec. 31	2007A	2008A	2009A	1Q10A	2Q10E	3Q10E	4Q10E	2010E	2011E	2012E	2013E	2014E	2015E
Revenue (000's)													
ZADAXIN (Mainly China) - Hep B & Prophylaxis	37,038	54,108	72,411	17,962	20,000	21,000	23,000	81,962	86,060	90,363	92,170	94,014	95,894
% Chg		46%	34%	-1%	11%	5%	10%	13%	5%	5%	2%	2%	2%
Contract Revenues	20	-	-	-	-	-	-	-	-	-	-	-	-
DC Bead China (Embollic Therapy-Oncology)		-	-	-	-	-	-	-	5,580	11,160	16,740	21,762	27,203
% Chg		-	-	-	-	-	-	-	-	100%	50%	30%	25%
SCV07 (Mucositis & HCV)		-	-	-	-	-	-	-	-	-	-	-	-
% Chg		-	-	-	-	-	-	-	-	-	-	-	-
RP-101 (Pancreatic Cancer) - Chemosensitizer		-	-	-	-	-	-	-	-	-	-	-	-
% Chg		-	-	-	-	-	-	-	-	-	-	-	-
Ondansetron™		-	-	-	-	-	-	-	2,000	10,263	16,697	25,934	32,724
% Chg		-	-	-	-	-	-	-	-	413%	63%	55%	26%
Total Product Sales	37,058	54,108	72,411	17,962	20,000	21,000	23,000	81,962	93,640	111,787	125,607	141,710	155,821
% Chg		46%	34%	19%	-9%	22%	27%	13%	14%	19%	12%	13%	10%
Zadaxin MM Royalty - 15%	-	-	-	-	-	-	-	-	-	-	-	-	-
Collaborative revenue - partnerships - Zadaxin	-	5	-	-	-	-	-	-	-	-	10,000	10,000	10,000
Total Revenues	37,058	54,113	72,411	17,962	20,000	21,000	23,000	81,962	93,640	111,787	135,607	161,754	187,138
% Chg		46%	34%	19%	-9%	22%	27%	13%	14%	19%	21%	19%	16%
Expenses													
COGS	6,735	9,827	11,585	2,759	4,000	4,200	4,600	15,559	18,728	22,357	25,121	28,342	31,164
COGS % Sales	18%	18%	16%	20%	20%	20%	20%	20%	20%	20%	20%	20%	20%
R&D	17,446	23,537	16,979	2,675	3,900	4,300	4,400	15,275	16,039	16,841	17,683	18,567	19,495
R&D % Rev's	47%	43%	23%	0	0	0	19%	19%	17%	15%	13%	11%	10%
SG&A	24,173	29,183	31,223	8,144	8,144	8,144	7,415	31,847	32,484	33,134	33,797	34,473	35,162
SG&A % Rev's	65%	54%	43%	45%	41%	39%	32%	39%	35%	30%	25%	21%	19%
Other	-	-	29	-	-	-	-	-	-	-	-	-	-
Stk Optn's	2,243	1,843	1,875	357	520	429	429	1,735	1,822	1,895	1,970	2,049	2,131
Non-GAAP, Adj.	2,243	1,843	1,875	357	520	429	429	1,735	1,822	1,895	1,970	2,049	2,131
Total expenses	48,354	62,547	59,816	13,578	16,044	16,644	16,415	62,681	67,251	73,358	78,271	83,975	89,094
Oper. Inc. (Loss)	(11,296)	(8,434)	12,595	4,384	3,956	4,356	6,585	19,281	26,389	38,428	57,337	77,779	98,044
Oper Margin	NM	NM	17%	24%	20%	21%	29%	24%	28%	34%	42%	48%	52%
Int. Inc.	1,629	608	153	25	76	87	86	274	390	490	620	844	1,122
Int Exp.	(20)	(31)	(179)	(19)	(19)	(19)	34	(23)	(46)	(45)	(44)	(42)	(41)
Other	40	(16)	45	2	-	-	-	2	-	-	-	-	-
Total Net	1,649	561	18	8	57	68	120	253	345	446	577	802	1,081
Pre-tax income	(9,647)	(7,873)	12,587	4,392	4,013	4,424	6,705	19,534	26,734	38,874	57,913	78,581	99,125
Pretax Margin	NM	NM	17%	24%	20%	21%	29%	24%	29%	35%	43%	49%	53%
Disct'd ops	-	-	-	-	-	-	-	-	-	-	-	-	-
Gain Sale Disct'd Ops	-	-	-	-	-	-	-	-	-	-	-	-	-
Taxes Provision (China)	301	475	641	198	198	198	198	792	950	1,236	1,606	2,088	2,714
Taxes Provision	-	-	-	-	-	-	-	-	4,010	8,552	14,478	24,360	35,685
Tax Rate	-	-	-	-	-	-	-	-	15%	22%	25%	31%	36%
Prefr'd dividend	-	-	-	-	-	-	-	-	-	-	-	-	-
Prefr'd div Acct'n	-	-	-	-	-	-	-	-	-	-	-	-	-
GAAP NI	(9,948)	(8,348)	11,946	4,194	3,815	4,226	6,507	18,742	21,773	29,086	41,829	52,133	60,726
Net Margin	NM	NM	16%	23%	19%	20%	28%	23%	23%	26%	31%	32%	32%
GAAP-EPS	(0.22)	(0.18)	0.25	0.09	0.08	0.09	0.13	0.39	0.45	0.60	0.85	1.05	1.22
Non GAAP EPS (dil)	(0.16)	(0.14)	0.29	0.09	0.09	0.10	0.14	0.42	0.49	0.63	0.89	1.10	1.26
Wgt'd Avg Shrs (Bas) - '000s	46,100	46,212	46,328	47,255	47,728	47,966	48,206	48,272	48,361	48,650	48,942	49,237	49,533
Wgt'd Avg Shrs (Dil) - '000s	46,100	46,212	47,404	49,134	49,625	47,981	48,221	48,287	48,376	48,665	48,957	49,252	49,548

Source: Company reports and National Securities

Fundamental Research:
Biotechnology
Friday, July 02, 2010

REG AC ANALYST CERTIFICATION

The research analyst named on this report, Jason Kolbert, certifies the following: (1) that all of the views expressed in this research report accurately reflect his personal views about any and all of the subject securities or issuers; and (2) that no part of his compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed by him in this research report.

IMPORTANT DISCLOSURES

This publication does not constitute and should not be construed as an offer or the solicitation of any transaction to buy or sell any securities or any instruments or any derivatives of the securities mentioned herein, or to participate in any particular trading strategies. Although the information contained herein has been obtained from recognized services, and sources believed to be reliable, its accuracy or completeness cannot be guaranteed. Opinions, estimates or projections expressed in this report may make assumptions regarding economic, industry, company and political considerations, and constitute current opinions, at the time of issuance, which are subject to change without notice.

This report is being furnished for informational purposes only, and on the condition that it will not form a primary basis for any investment decision. Any recommendation(s) contained in this report is/are not intended to be, nor should it / they be construed or inferred to be, investment advice, as such investments may not be suitable for all investors. When preparing this report, no consideration to one's investment objectives, risk tolerance and other individual factors was given; as such, as with all investments, purchase or sale of any securities mentioned herein may not be suitable for all investors. By virtue of this publication, neither the Firm nor any of its employees shall be responsible for any investment decisions. Before committing funds to ANY investment, an investor should seek professional advice. Any information relating to the tax status of financial instruments discussed herein is not intended to provide tax advice, or to be used by anyone to provide tax advice. Investors are urged to consult an independent tax professional for advice concerning their particular circumstances. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, either expressed or implied, is made regarding future performance.

National Securities Corporation (NSC) and its affiliated companies, shareholders, officers, directors and / or employees (including persons involved with the preparation or issuance of this report) may, from time to time, have long or short positions in, and buy or sell the securities or derivatives (including options) thereof, of the companies mentioned herein. One or more directors, officers, and / or employees of NSC and its affiliated companies, or independent contractors affiliated with NSC may be a director of the issuer of the securities mentioned herein. NSC and / or its affiliated companies may have managed or co-managed a public offering of, or acted as initial purchaser or placement agent for a private placement of any of the securities of any issuer mentioned in this report within the last three (3) years, or may, from time to time, perform investment banking or other services for, or solicit investment banking business from any company mentioned in this report.

This research may be distributed by affiliated entities of National Securities Corporation (NSC). Affiliated entities of NSC may include, but are not limited to, vFinance Investments, Inc., Equity Station, National Asset Management and other subsidiaries of our parent company, National Holdings Corporation.

The securities mentioned in this document may not be eligible for sale in some states or countries, nor be suitable for all types of investors; their value and the income they produce if any, may fluctuate and/or be adversely affected by exchange rates, interest rates or other factors. Furthermore, NSC may follow emerging growth companies whose securities typically involve a higher degree of risk and more volatility than the securities of more established companies. This report does not take into account the particular investment objectives, financial situation or needs of individual investors. Before acting on any advice or recommendation in this material, the investor should exercise independent judgment as to whether it is suitable in light of his/her particular circumstances and, if necessary, seek professional advice. Past performance should not be taken as an indication or guarantee of future performance, and no representation or warranty, express or implied, is made regarding future performance.

Additional information relative to securities, other financial products, or issuers discussed in this report is available upon request. Neither this entire report, nor any part thereof, may be reproduced, copied or duplicated in any form or by any means without the prior written consent of National Securities Corporation. All rights reserved. NSC is a member of both the Financial Industry Regulatory Authority (FINRA) and the Securities Investors Protection Corporation (SIPC).

For disclosures inquiries, please call us at 1-800-417-8000 and ask for your NSC representative, or write us at National Securities Corporation, Attn. Rhonda Jungquist - Compliance Department, 1001 Fourth Avenue, 22nd Floor, Seattle, WA 98154, or visit our website at www.nationalsecurities.com.

Research "Possible" Disclosures Legend	
	Relevant Disclosures - None
1	National Securities (NSC) is a market maker in the securities of the subject company
2	In the past twelve (12) month period, NSC and / or its affiliates have received compensation for investment banking for services from the subject company
3	In the past twelve (12) month period, NSC and / or its affiliates have received compensation from the subject company for services other than those related to investment banking.
4	In the past twelve (12) month period, NSC was a manager or co-manager of a public offering of one or more of the securities of the issuer.
5	In the past twelve (12) month period, NSC was a member of the selling group of a public offering of the security (ies) of the issuer.
6	One or more directors, officers, and / or employees of NSC and / or its affiliated companies is / are a director (S) of the issuer of the security which is the subject of this report.
7	NSC and / or its affiliates expects to receive or intends to seek compensation for investment banking services from the subject company at some point during the next three (3) months.
8	A research analyst or a member of his / her household has a financial interest in the securities of the subject company as follows a) long common stock; b) short common stock;c)long calls; d) short calls; e) long puts f) short puts; g) long rights; h)short rights; i)long warrants; j) short warrants; k)long futures; l)short futures m)long preferred stock; n) short preferred stock.
9	As of the end of the month immediately preceding the date of publication of this report, or the end of the prior month if the publication is within ten (10) days following the end of the month, NSC and / or its affiliates beneficially owned one per cent (1%) or more of any class of common equity securities of the subject company.
10	Please see below for other relevant disclosures

Shares of this security may be solicited in the following states AK, AL, AR,AZ, CA, CO,CT,DC,DE,FL,GA,HI,IA,IS,IL, IN,KS,KY,LA,MA,MD,ME,MI, MN,NC,ND, NE,NJ,NM,NV,NY,OH,OK,OR,PA,RI,SC,SD,TN,UT,VA,VI,VT,WA,WI,WV,WY

Rating	Companies Covered	Rating Distribution	Investment Banking Clients	Investment Banking Clients %
BUY	9	90%	4	40%
NEUTRAL	1	10%	0	0%
SELL	0	0%	0	0%
Total	10	100%	4	0%

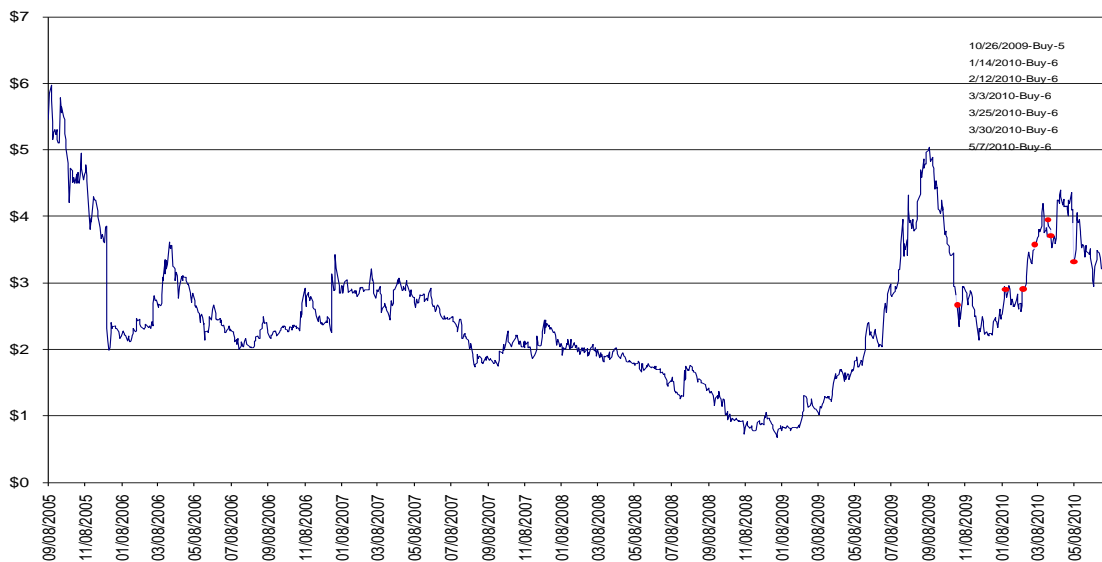
FIRM-WIDE RATING DISTRIBUTION: MEANING OF RATINGS

BUY: the total return of the investment strategy is likely to appreciate at least 15% over the next 12 months.

NEUTRAL: the stock price is likely to consolidate over the next 12 months.

SELL: the stock price is likely to decline in value at least 15% over the next 12 months.

RATING AND PRICE TARGET HISTORY: SCLN as of July 1, 2010



Source: Thomson