

SCICLONE PHARMACEUTICALS INC

FORM 10-Q (Quarterly Report)

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2010

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)

Delaware
(State or other jurisdiction of
incorporation or organization)

94-3116852
(I.R.S. employer
Identification no.)

950 Tower Lane, Suite 900, Foster City, California
(Address of principal executive offices)

94404
(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 No

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

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

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller Reporting Company

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

As of May 6, 2010, 47,344,274 shares of the registrant's Common Stock, \$0.001 par value, were issued and outstanding.

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements (Unaudited)

SCICLONE PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share and per share amounts)

	March 31, 2010 <u>(Unaudited)</u>	December 31, 2009 <u>(see Note 1)</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 37,539	\$ 29,687
Short-term investments	1,087	1,646
Accounts receivable	16,913	21,394
Inventories	11,118	10,149
Prepaid expenses and other current assets	1,159	1,518
Restricted short-term investments	67	71
Total current assets	<u>67,883</u>	<u>64,465</u>
Property and equipment, net	749	771
Restricted investments	391	415
Other assets	1,211	1,249
Total assets	<u>\$ 70,234</u>	<u>\$ 66,900</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 1,198	\$ 2,339
Accrued liabilities	5,887	6,048
Deferred revenue	—	141
Total current liabilities	<u>7,085</u>	<u>8,528</u>
Long-term liabilities	987	979
Stockholders' equity:		
Preferred stock; \$0.001 par value; 10,000,000 shares authorized; no shares outstanding	—	—
Common stock; \$0.001 par value; 75,000,000 shares authorized; 47,342,191 and 47,217,944 shares issued and outstanding at March 31, 2010 and December 31, 2009, respectively	47	47
Additional paid-in capital	222,818	222,229
Accumulated other comprehensive income	9	22
Accumulated deficit	<u>(160,712)</u>	<u>(164,905)</u>
Total stockholders' equity	<u>62,162</u>	<u>57,393</u>
Total liabilities and stockholders' equity	<u>\$ 70,234</u>	<u>\$ 66,900</u>

See accompanying notes to unaudited condensed consolidated financial statements.

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SCICLONE PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except share and per share amounts)
(Unaudited)

	Three Months Ended	
	March 31,	
	2010	2009
Product sales	\$17,962	\$15,069
Cost of product sales	2,759	2,665
Gross margin	<u>15,203</u>	<u>12,404</u>
Operating expenses:		
Research and development (including \$0 and \$29 of related party research and development for the three months ended March 31, 2010 and 2009, respectively)	2,675	4,836
Sales and marketing	4,948	4,107
General and administrative	3,197	3,198
Total operating expenses	<u>10,820</u>	<u>12,141</u>
Income from operations	4,383	263
Interest and investment income	25	65
Interest and investment expense	(19)	(49)
Other income (expense), net	2	(23)
Income before provision for income tax	4,391	256
Provision for income tax	198	160
Net income	<u>\$ 4,193</u>	<u>\$ 96</u>
Basic net income per share	\$ 0.09	\$ 0.00
Diluted net income per share	\$ 0.09	\$ 0.00
Weighted average shares used in computing:		
Basic net income per share	47,255	46,220
Diluted net income per share	49,134	46,235

See accompanying notes to unaudited condensed consolidated financial statements.

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SCICLONE PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three Months Ended	
	March 31,	
	2010	2009
Operating activities:		
Net income	\$ 4,193	\$ 96
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Non-cash expense related to employee stock compensation	324	357
Depreciation and amortization	104	139
Realized gain on auction rate securities	(76)	(99)
Other non-cash expense	68	122
Changes in operating assets and liabilities:		
Accounts receivable	4,481	(5,231)
Inventories	(963)	252
Prepaid expenses and other assets	294	124
Accounts payable	(1,141)	(487)
Accrued liabilities (including \$0 and \$29 due to related party as of March 31, 2010 and 2009, respectively)	(161)	(940)
Deferred revenue	(141)	10
Long-term liabilities	8	128
Net cash provided by (used in) operating activities	<u>6,990</u>	<u>(5,529)</u>
Investing activities:		
Purchases of property and equipment	(47)	(91)
Proceeds from the sale or maturity of available-for-sale investments	—	42
Proceeds from the sale or maturity of trading security investments	650	—
Net cash provided by (used in) investing activities	<u>603</u>	<u>(49)</u>
Financing activities:		
Proceeds from exercise of stock options	259	—
Net cash provided by financing activities	<u>259</u>	<u>—</u>
Effect of exchange rate changes on cash and cash equivalents	—	(17)
Net increase (decrease) in cash and cash equivalents	7,852	(5,595)
Cash and cash equivalents, beginning of year	29,687	27,673
Cash and cash equivalents, end of year	<u>\$37,539</u>	<u>\$22,078</u>
Supplemental disclosure of cash flow information:		
Income taxes paid related to foreign operations	<u>\$ 174</u>	<u>\$ 118</u>

See accompanying notes to unaudited condensed consolidated financial statements.

SCICLONE PHARMACEUTICALS, INC.

Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. **Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements of SciClone Pharmaceuticals, Inc. (“SciClone” or the “Company”) have been prepared in conformity with generally accepted accounting principles in the United States (“GAAP”) consistent with those applied in, and should be read in conjunction with, the audited financial statements for the year ended December 31, 2009 included in the Company’s Form 10-K as filed with the Securities and Exchange Commission. The interim financial information reflects all adjustments, consisting only of normal recurring adjustments, which are, in the opinion of management, necessary for a fair presentation of the results for the interim periods presented and are not necessarily indicative of results for subsequent interim periods or for the full year. The condensed consolidated balance sheet data at December 31, 2009 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 condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Material intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make judgments, assumptions and estimates that affect the amounts reported in our condensed consolidated financial statements and accompanying notes. Actual results could differ significantly from those estimates.

Revenue Recognition

The Company recognizes revenue from product sales at the time of delivery. There are no significant customer acceptance requirements or post-shipment obligations on the part of the Company, except for sales to a new market where acceptance requirements may have to be met. Sales to importing agents or distributors are recognized at time of shipment when title to the product is transferred to them. Importing agents or distributors do not have contractual rights of return except under limited terms regarding product quality. However, the Company may replace products that have expired or are deemed to be damaged or defective when delivered. The Company estimates expected returns primarily on historical patterns. Historically, the Company has had no product returns of damaged, defective or expired product. As such, no amount was accrued for product returns as of March 31, 2010 and December 31, 2009 in the respective condensed consolidated balance sheets. Payments by the importing agents and distributors are not contingent upon sale to the end user by the importing agents or distributors. Amounts invoiced relating to arrangements where collectibility is uncertain and revenue cannot be recognized are reflected on the Company’s balance sheet as deferred revenue and recognized as the applicable revenue recognition criteria are satisfied.

Research and Development Expenses

Research and development costs are expensed as incurred. These costs consist primarily of salaries and other personnel-related expenses, including associated stock-based compensation, facility-related expenses, depreciation of facilities and equipment, license-related fees, services performed by clinical research organizations and research institutions and other outside service providers, and the sharing of certain costs for the development of ZADAXIN by the Company’s partner, Sigma-Tau Finanziaria S.p.A (“Sigma-Tau”).

Expenses related to clinical trials generally are accrued based on estimates of work performed or the level of patient enrollment and activities according to the protocols and agreements. The Company monitors planned protocols, work performed, patient enrollment levels and related activities to the extent possible and adjusts estimates accordingly. Nonrefundable advance payments for research and development goods or services are recognized as expense as the related goods are delivered or the related services are provided.

Concentrations of Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist of cash, cash equivalents, investments and accounts receivable. The Company is exposed to credit risk in the event of default by the institutions holding the cash, cash equivalents and investments and by importers with whom the Company has accounts receivable to the extent of the amounts recorded on the condensed consolidated balance sheet. Substantially all the Company’s cash and cash equivalents are held by financial institutions that the Company believes are of high credit quality. At times, deposits may exceed government insured limits. The Company has not experienced any losses on its deposits of cash and cash equivalents.

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The People's Republic of China ("China") uses a tiered method to import and distribute products. The distributors make the sales in the country, but the product is imported for them by licensed importers. For the three months ended March 31, 2010 and 2009, sales to three and two importing agents in China accounted for 95% and 97% of the Company's product sales, respectively. For the three months ended March 31, 2010, the two largest customers accounted for 59% and 29% of sales, respectively. For the three months ended March 31, 2009, the two largest customers accounted for 65% and 32% of sales, respectively. No other customer accounted for more than 10% of sales for the three months ended March 31, 2010 or 2009. As of March 31, 2010, approximately \$16.4 million, or 97%, of the Company's accounts receivable were attributable to four importing agents in China. The Company performs on-going credit evaluations of its customers' financial condition and generally does not require collateral from its customers.

Net Income Per Share

Basic net income per share has been computed by dividing net income by the weighted-average number of shares of common stock outstanding for the period. Diluted net income per share is computed by dividing net income by the weighted-average number of common equivalent shares outstanding for the period. Diluted net income per share includes any dilutive impact from stock options and warrants outstanding using the treasury stock method.

The following is a reconciliation of the numerator and denominators of the basic and diluted net income per share computations (*in thousands, except per share amounts*):

	Three Months Ended March 31,	
	2010	2009
Numerator:		
Net income	\$ 4,193	\$ 96
Denominator:		
Weighted-average shares outstanding used to compute basic net income per share	47,255	46,220
Effect of dilutive securities	<u>1,879</u>	<u>15</u>
Weighted-average shares outstanding used to compute diluted net income per share	<u>49,134</u>	<u>46,235</u>
Basic net income per share	\$ 0.09	\$ 0.00
Diluted net income per share	\$ 0.09	\$ 0.00

For the three months ended March 31, 2010 and 2009, 2,672,119 and 8,704,598 shares, respectively, related to outstanding stock options and warrants were excluded from the calculation of diluted net income per share because their inclusion would have been anti-dilutive.

Comprehensive Income

The following table summarizes components of total comprehensive income (*in thousands*) :

	Three Months Ended March 31,	
	2010	2009
Net income	\$ 4,193	\$ 96
Other comprehensive income (loss):		
Net change in unrealized loss and foreign currency translation on foreign-denominated available-for-sale securities	(24)	(12)
Net change in unrealized gains/losses on available for sale securities	11	(31)
Foreign currency translation	<u>—</u>	<u>(17)</u>
Total comprehensive income	<u>\$ 4,180</u>	<u>\$ 36</u>

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Fair Value of Financial Instruments

The fair value of the Company's financial instruments reflects the amounts that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The fair value estimates presented in this report reflect the information available to the Company as of March 31, 2010 and December 31, 2009. See Note 3, "Fair Value Measurements."

Recent Accounting Guidance

In January 2010, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") No. 2010-06, Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements. The ASU requires new disclosures about significant transfers in and out of Levels 1 and 2 fair value measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. The ASU also clarifies existing disclosure requirements regarding inputs and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities for which separate fair value measurements should be disclosed. The Company adopted ASU 2010-06 at the beginning of fiscal 2010. The adoption of this ASU did not have a material impact on the Company's condensed consolidated financial statements.

Reclassifications

The Company reclassified shipping and handling costs related to product shipments of \$0.1 million from sales and marketing expense to cost of product sales, and reclassified \$0.2 million of legal expense from research and development expense to general and administrative expense for the three months ended March 31, 2009 to conform to the current period presentation. These reclassifications had no effect on the prior period's net income or stockholders' equity.

2. **Cash, Cash Equivalents and Investments**

The following is a summary of cash, cash equivalents, and investments (*in thousands*):

	March 31, 2010			
	Unrealized			Estimated Fair Value
	Amortized Cost	Unrealized Gains	Losses for More Than 12 Months	
Cash and cash equivalents:				
Cash	\$ 14,731	\$ —	\$ —	\$ 14,731
Money market funds	673	—	—	673
Foreign U.S. dollar term deposits	22,135	—	—	22,135
Total cash and cash equivalents	<u>\$ 37,539</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 37,539</u>
Available-for-sale investments:				
Certificates of deposit maturing within 1 year	\$ 76	\$ —	\$ —	\$ 76
Restricted long-term Italian state bonds maturing in 2013	449	—	(58)	391
Corporate equity securities	51	13	—	64
Total available-for-sale investments	<u>\$ 576</u>	<u>\$ 13</u>	<u>\$ (58)</u>	<u>\$ 531</u>
Trading security investments:				
Auction rate securities maturing after 20 years	\$ 1,014	\$ —	\$ —	\$ 1,014
Total trading security investments	<u>\$ 1,014</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,014</u>

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	December 31, 2009			
	Amortized	Unrealized		Estimated
		Cost	Gains	
	Cost	Gains	12 Months	Fair Value
Cash and cash equivalents:				
Cash	\$ 17,541	\$ —	\$ —	\$ 17,541
Money market funds	16	—	—	16
Foreign U.S. dollar term deposits	12,130	—	—	12,130
Total cash and cash equivalents	<u>\$ 29,687</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 29,687</u>
Available-for-sale investments:				
Certificates of deposit maturing within 1 year	\$ 76	\$ —	\$ —	\$ 76
Restricted long-term Italian state bonds maturing in 2013	449	—	(34)	415
Corporate equity securities	51	2	—	53
Total available-for-sale investments	<u>\$ 576</u>	<u>\$ 2</u>	<u>\$ (34)</u>	<u>\$ 544</u>
Trading security investments:				
Auction rate securities maturing after 20 years	\$ 1,588	\$ —	\$ —	\$ 1,588
Total trading security investments	<u>\$ 1,588</u>	<u>\$ —</u>	<u>\$ —</u>	<u>\$ 1,588</u>

As of March 31, 2010 and December 31, 2009, available-for-sale securities included \$0.5 million in restricted investments. The unrealized losses on the Company's restricted Italian state bond investments are mainly as a result of currency translation. The Company intends to hold its restricted Italian state bond investments until recovery.

As of March 31, 2010, the Company's certificate of deposit for \$0.1 million secures the Company's letter of credit required under its European value added tax filing arrangements.

As of March 31, 2010, the Company held \$1.0 million in fair value of auction rate securities ("ARS") as trading securities in short-term investments. The ARS are highly rated investments by one or more of the major independent rating agencies and have contractual maturities generally between 20 and 32 years whose underlying assets are student loans that are substantially backed by the federal government with interest rates resetting approximately every 30 days through an auction process. At the end of each reset period, investors may sell or continue to hold the securities at par. Disruptions in the credit markets have adversely affected the market for ARS. However, the Company does not believe that the underlying securities or collateral have been permanently affected.

In November 2008, the Company accepted an Auction Rate Securities Rights Offer (the "Settlement Agreement") from UBS AG under which, in return for a general release of claims and the grant of a right to UBS AG to purchase the Company's ARS at any time for full par value, the Company received the right to require UBS AG to purchase the Company's ARS beginning in June 2010 (the "Rights"). The Company held approximately \$1.2 million, at par value, of eligible ARS with UBS as of March 31, 2010. By entering into the Settlement Agreement, the Company (1) received the right (the "Put Option") to sell these auction rate securities back to the investment firm at par, at its sole discretion, anytime during the period from June 30, 2010 through July 2, 2012, and (2) gave the investment firm the right to purchase these auction rate securities or sell them on the Company's behalf at par anytime after the execution of the Settlement Agreement through July 2, 2012. The Company has recorded the fair value of the Put Option in prepaid expenses and other current assets in its condensed consolidated balance sheet as of March 31, 2010. The Company's fair value election was intended to create accounting symmetry with its fair value accounting of the ARS.

The recording of the fair value changes of the Put Option resulted in net realized losses of \$0.1 million for both the three months ended March 31, 2010 and 2009, respectively, recorded to other expense in the Company's condensed consolidated statements of operations. The recording of the fair value changes to the ARS trading securities resulted in net realized gains of \$0.1 million for both the three months ended March 31, 2010 and 2009 recorded to other income in the Company's condensed consolidated statements of operations. As of March 31, 2010, the combined fair value of the Put Option and ARS was \$1.1 million and represented 99.7% of the par value of the ARS. The Company anticipates that future changes in the fair value of the Put Option will approximate fair value movements in the related ARS. Further, the Company expects to receive the ARS par value of \$1.2 million subsequent to June 29, 2010 related to its Settlement Agreement.

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3. Fair Value Measurements

Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value must maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of input are:

Level 1 - Quoted prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Where quoted prices are available in an active market, the Company determines fair value based upon quoted market prices, and classifies these values in level 1 of the valuation hierarchy. If quoted market prices are not available, fair values are based upon observable inputs such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities and are classified in level 2 of the valuation hierarchy. When quoted prices and observable inputs are unavailable, fair values are based on a market approach using internally developed cash flow models and are classified in level 3 of the valuation hierarchy. The internally developed cash flow models primarily use, as inputs, estimates for interest rates and discount rates including yields of comparable traded instruments adjusted for illiquidity and other risk factors, amount of cash flows and expected holding periods of the assets. These inputs reflect the Company's assumptions about the assumptions market participants would use in pricing the assets including assumptions about risk developed based on the best information available in the circumstances. The Company's assessment of the significance of a particular input to the fair value measurements requires judgment, and may affect the valuation of the assets being measured and their placement within the fair value hierarchy.

Other financial instruments, including accrued liabilities, are carried at cost, which the Company believes approximates fair value because of the short-term maturity of these instruments.

The following table represents the Company's fair value hierarchy for its financial assets (cash equivalents, investments and other current assets) measured at fair value on a recurring basis (*in thousands*):

Description	Fair Value Measurements at March 31, 2010 Using			Balance as of March 31, 2010
	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	
Money market funds	\$ 673	\$ —	\$ —	\$ 673
Foreign U.S. dollar term deposits	—	22,135	—	22,135
Certificates of deposit	—	76	—	76
Corporate equity securities	64	—	—	64
Restricted long-term Italian state bonds	391	—	—	391
Auction rate securities	—	—	1,014	1,014
Put Option	—	—	134	134
Total	<u>\$ 1,128</u>	<u>\$ 22,211</u>	<u>\$ 1,148</u>	<u>\$ 24,487</u>

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The following table provides a summary of changes in fair value of the Company's level 3 financial assets during the three months ended March 31, 2010 (*in thousands*):

	Auction Rate	Put
	Securities	Option
Balance at December 31, 2009	\$ 1,588	\$ 202
Proceeds from sales	(650)	—
Total realized gain (loss) included in net income	76	(68)
Balance at March 31, 2010	<u>\$ 1,014</u>	<u>\$ 134</u>

4. Inventories

Inventories consisted of the following (*in thousands*):

	March 31,	December 31,
	2010	2009
Raw materials	\$ 1,884	\$ 2,446
Work in progress	5,070	1,048
Finished goods	4,164	6,655
	<u>\$ 11,118</u>	<u>\$ 10,149</u>

5. Accrued Liabilities

The following is a summary of accrued liabilities (*in thousands*):

	March 31,	December 31,
	2010	2009
Accrued sales and marketing expenses	\$ 1,511	\$ 1,394
Accrued manufacturing costs	1,112	808
Accrued compensation	946	1,913
Accrued professional fees	524	394
Accrued taxes	404	309
Accrued clinical trial expense	338	452
Other	1,052	778
	<u>\$ 5,887</u>	<u>\$ 6,048</u>

6. Lines-of-Credit

Silicon Valley Bank

Under its loan and security agreement and an unconditional guaranty and security agreement with Silicon Valley Bank (the "Credit Facility"), the Company and its subsidiaries, SciClone Pharmaceuticals International Ltd. and SciClone Pharmaceuticals International China Holding Ltd. as borrowers, may borrow up to \$6 million for a term of 36 months, subject to certain sublimits, including \$2.5 million for letters of credit. The Credit Facility is secured by a first priority secured interest in all of the Company's assets, other than intellectual property. The Credit facility expires in November 2011, and upon termination all amounts borrowed must be repaid in full. As of March 31, 2010, there were no outstanding borrowings under the Credit Facility. The Credit Facility bears interest at the bank's prime rate plus 1.75% on outstanding balances. The Company is required to meet certain financial covenants, including minimum consolidated revenue, and minimum consolidated earnings before interest and income tax, as defined, and since November 14, 2009, has been subject to certain minimum fees and interest payments. The Company is also required to meet certain operating covenants that limit its ability to incur liabilities, create liens, make capital expenditures, pay dividends or distributions, make investments, and dispose of assets and to carry credit insurance. During 2009, Company received a limited waiver to the Credit Facility to waive certain minimum fees and interest payments, and to waive the requirement to maintain a credit insurance policy.

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UBS AG

The Company also has available a Credit Line (the “UBS Credit Line”) with UBS AG that will provide up to an aggregate amount of \$0.8 million in the form of an uncommitted, demand, revolving line of credit in connection with its previous acceptance of an offer from UBS AG and its affiliates (“UBS”) of certain rights to require UBS to repurchase \$1.2 million (par value) of auction rate securities that UBS had previously sold to the Company. The UBS Credit Line will be secured only by such auction rate securities and proceeds from sales of the auction rate securities will be applied to repayment of the UBS Credit Line.

Advances under the UBS Credit Line will be made on a “no net cost” basis, meaning that the interest paid by the Company on such advances will not exceed the interest or dividends paid to the Company by the issuer of the auction rate securities.

The UBS Credit Line also provides, among other things, that UBS AG may demand full or partial repayment of the UBS Credit Line or terminate and cancel the UBS Credit Line at its sole discretion and without cause at any time; provided that in such case UBS AG would be required to provide the Company alternative financing on substantially similar terms or repurchase the auction rate securities at par, unless the demand right was exercised as a result of certain specified events or the customer relationship between UBS AG and the Company is terminated for cause by UBS AG. As of March 31, 2010, the Company had no outstanding borrowings under the UBS Credit Line.

7. Stock-Based Compensation

The Company has several stock-based compensation plans (the “Plans”) that are described in the Company’s Annual Report on Form 10-K for the fiscal year ended December 31, 2009. The Company, under the various equity plans, grants stock options for shares of common stock to employees and directors. In accordance with the Plans, the options expire ten years from the date of grant. Options are generally granted at fair market value on the date of grant and the portion that is ultimately expected to vest is recognized as compensation cost over the requisite service period, generally four years. Certain options granted under the Plans vest over shorter periods. During the quarter ended March 31, 2010, the Company granted options to purchase a total of 1,213,500 shares of common stock and options to purchase 124,247 shares were exercised. During the twelve months ended December 31, 2009, the Company granted options to purchase a total of 2,269,000 shares of common stock and 999,000 shares were exercised.

The Company has granted to certain employees performance-based options to purchase shares of the Company’s common stock at an exercise price equal to the closing price of a share of the Company’s common stock as of the grant date. The options will fully vest upon the employee meeting a performance goal within an established time frame. If the performance goal is met for the option within the established time frame, the option has a ten year term measured from the date of grant. If the performance goal is not met within the established time frame, the option expires in its entirety. The grant date fair value per share of the awards has been calculated using the Black-Scholes option pricing model. The Company recognizes expense related to the performance-based options over the period of time the Company determines that it is probable that the performance goal will be achieved. For the three months ended March 31, 2010, the Company granted a performance-based option to purchase a total of 40,000 shares of common stock. For the twelve months ended December 31, 2009, the Company granted performance-based options to purchase a total of 340,000 shares of common stock. For both the three months ended March 31, 2010 and 2009, the Company recorded no option expense related to these awards as the achievement of the performance goal was not considered probable by the Company.

8. Income Taxes

Provision for income tax of \$0.2 million for both the three months ended March 31, 2010 and 2009 related to the Company’s foreign operations in China. The Company’s statutory tax rate in China was 20% in 2009 and is 22% for 2010. The Company did not provide for U.S. income taxes on undistributed earnings of its foreign operations that are intended to be permanently reinvested in the foreign operations.

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

Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements are based on our current expectations, estimates and projections about our business, industry, management's beliefs and certain assumptions made by us. Words such as "anticipate," "expect," "intend," "plan," "believe" or similar expressions are intended to identify forward-looking statements including those statements we make regarding our future financial results; anticipated product sales; the sufficiency of our resources to complete clinical trials and other new product development initiatives; government regulatory actions that may affect product reimbursement, product pricing or otherwise affect the scope of our sales and marketing, the timing and outcome of clinical trials; the timing of completion of therapy and observation for our clinical trials; ZADAXIN's ability to complement existing therapies; prospects for ZADAXIN® and our plans for its enhancement and commercialization; future size of the worldwide hepatitis B virus ("HBV") and hepatitis C virus ("HCV") and other markets; research and development and other expense levels; the ability of our suppliers to continue financially viable production of our products; cash and other asset levels; and the allocation of financial resources to certain trials and programs. These statements are not guarantees of future performance and are subject to certain risks, uncertainties and assumptions that are difficult to predict. Therefore, our actual results could differ materially and adversely from those expressed in any forward-looking statements as a result of various factors including, but not limited to, those described under the caption "Risk Factors" in this Quarterly Report on Form 10-Q. We undertake no obligation to revise or update publicly any forward-looking statements for any reason.

Overview

SciClone Pharmaceuticals (NASDAQ: SCLN) is a profit-focused, global specialty pharmaceutical company with a substantial international business, based primarily in the People's Republic of China ("China"), and with a product portfolio of novel therapies for cancer and infectious diseases. Our strategy is focused on continuing international sales growth, a cost-containing clinical development strategy, and overall expense management. ZADAXIN, our brand of thymalfasin or thymosin alpha 1, is sold in over 30 countries for the treatment of the hepatitis B virus ("HBV") and the hepatitis C virus ("HCV"), certain cancers and as a vaccine adjuvant. We believe our current cash and investment position and the gross profit from our product sales provide the financial resources to execute on our strategy for continued growth in our international business and for development of our pipeline of late-stage product candidates.

We plan to expand our commercial operations, currently located primarily in China, with the goal of becoming a significant pharmaceutical company in China's rapidly growing pharmaceutical market. A key part of our strategy is to leverage our decade of experience in China and to grow our international business by adding commercial stage or near term commercial stage products to our portfolio. We believe we are well-positioned to in-license additional therapeutics for our international business with a focus on China, in part because of our opportunity to commercialize these products utilizing our well established sales and marketing organization in China. Furthermore, our international growth strategy may include additional partnerships and merger and acquisition transactions for synergistic, commercially attractive products.

We have successfully in-licensed two products that are part of this international commercial growth strategy, DC Bead™ and ondansetron RapidFilm™. Our DC Bead product candidate is a novel treatment for advanced liver cancer which is currently approved in 40 countries worldwide, including Europe and the U.S. We have commercialization rights for this product in China. We commenced a small local registration trial in the first quarter of 2010, which is expected to enroll approximately 40 advanced liver cancer patients at six State Food and Drug Administration ("SFDA")-certified liver cancer treatment centers. The primary endpoint is safety and the secondary endpoint is efficacy, as measured by tumor response. If the trial results are positive, we believe we may receive regulatory approval for DC Bead in the first half of 2011.

Our second in-licensed product candidate as part of this international commercial growth strategy is ondansetron RapidFilm. Ondansetron RapidFilm is an oral thin film formulation of ondansetron, a serotonin 5-HT₃ receptor antagonist commonly used to treat and prevent nausea and vomiting caused by chemotherapy, radiotherapy and surgery. In March 2010, we announced that BioAlliance Pharma had received European Union ("EU") approval of ondansetron RapidFilm. BioAlliance Pharma holds all European rights to ondansetron RapidFilm and was granted regulatory approval under the EU decentralized procedure in 16 major EU countries. We have commercialization rights for this product candidate in China including Hong Kong and Macau, and Vietnam, and we plan to file for product registration in 2010 with the regulatory authorities as soon as the first EU country issues marketing authorization which we expect to occur in 2010. Due to delays in marketing authorizations for ondansetron RapidFilm in Europe, we now believe we may receive regulatory approval in China in 2012 at which time we intend to introduce the product through our existing sales organization.

Our clinical development strategy is focused on our portfolio of novel product candidates for cancer and infectious diseases and includes SCV-07 and thymalfasin. SCV-07 is being developed for the delay of onset of severe oral mucositis in patients receiving chemoradiation therapy for the treatment of cancers of the head and neck and for the treatment of HCV. Thymalfasin is being developed in an ongoing clinical trial for enhancement of influenza H1N1 vaccination in immuno-compromised patient populations.

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We are moving forward our clinical development program for SCV-07, a small molecule synthetic peptide with immunomodulating properties, which is being studied in two indications: oral mucositis and HCV. Oral mucositis is a common, painful, debilitating complication of cancer treatment, and we estimate that total medical costs for the treatment of oral mucositis may reach around \$4.2 billion in the U.S. and \$10 billion worldwide in 2010. In March 2010, we announced topline results from our phase 2 clinical trial of SCV-07 for the delay to onset of severe oral mucositis caused by chemoradiotherapy regimens used to treat head and neck cancer. The study showed a signal towards delay to onset of severe oral mucositis, the study's primary endpoint, in the higher dose group. Patients in the low dose treatment arm appeared to do worse than placebo, suggesting that the treatment effect is sensitive to dose. Additionally, SCV-07 was safe and well tolerated with no drug-related serious adverse events reported, indicating that there is potential to administer higher doses of SCV-07 in future clinical studies. Based on the study findings, we intend to initiate discussions with the U.S. Food and Drug Administration regarding the design of a second phase 2 study, which would include higher doses of SCV-07.

The second component of the SCV-07 clinical development program is for the treatment of HCV. This multicenter, multidose, open-label study is designed to evaluate the safety and immunomodulatory effects of SCV-07 as a monotherapy or in combination with ribavirin in non-cirrhotic patients with genotype 1 chronic HCV who have relapsed after at least 44 weeks of treatment with pegylated interferon and ribavirin. The study, which monitors biomarkers of immune activation and HCV viral load dynamics, includes two treatment cohorts of 20 patients each who receive SCV-07 at a dose of either 0.1 mg/kg or 1.0 mg/kg. The treatment period is approximately eight weeks long including four weeks of SCV-07 monotherapy followed by four weeks of SCV-07 in combination with ribavirin. We expect to report results by the end of 2010. During our previous phase 2a clinical trial of SCV-07 designed to evaluate the effect of SCV-07 on HCV viral load, as well as on other measures of immune response, SCV-07 demonstrated activity in some treated patients in the higher dosage groups, and the decrease in viral load in these patients was accompanied by an increase in a biomarker which is usually correlated with an immunological response against HCV. Additionally, SCV-07 was shown to be generally safe and well-tolerated with no dose limiting toxicities or serious adverse events reported.

We continue to seek development opportunities with ZADAXIN ("thymalfasin") focused on vaccine enhancement. In January and February 2010, we and our partner, Sigma-Tau Finanziaria S.p.A., announced two data points from the study of ZADAXIN as an enhancer of H1N1 flu vaccines. The study is being conducted in an immunocompromised population of patients on chronic dialysis. ZADAXIN treatment given with the MF59 adjuvanted H1N1 influenza monovalent vaccine, Focetria™ from Novartis, led to a significant increase in the percentage of subjects who seroconverted, when evaluated at 21 days after vaccination, compared with those who received the H1N1 vaccine alone; and at 42 days after vaccination the improvement in titers seen in ZADAXIN-treated patients was maintained. We plan to announce further data in the first half of 2010, after all patients have reached 168 days post vaccination and final topline results are available. ZADAXIN is currently approved in Italy and more than 10 other countries as an enhancer for the influenza vaccine in immune-compromised patients.

Outside of China, SciClone's clinical development strategy is to focus on driving cost-efficient phase 1 and 2 development of promising compounds while seeking development partners for costly phase 3 trials, allowing us to achieve the potential upside of our portfolio of drug candidates.

We believe our cash and investments as of March 31, 2010 and ongoing revenue generating business operations will be sufficient to support our current operating plan for at least the next 12 months. Our results may fluctuate from quarter to quarter and we may report quarterly losses in the future.

Recent Accounting Guidance

In January 2010, the Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Update ("ASU") No. 2010-06, Fair Value Measurements and Disclosures (Topic 820)—Improving Disclosures about Fair Value Measurements. The ASU requires new disclosures about significant transfers in and out of Levels 1 and 2 fair value measurements and separate disclosures about purchases, sales, issuances and settlements relating to Level 3 fair value measurements. The ASU also clarifies existing disclosure requirements regarding inputs and valuation techniques, as well as the level of disaggregation for each class of assets and liabilities for which separate fair value measurements should be disclosed. We adopted ASU 2010-06 at the beginning of fiscal 2010. The adoption of this ASU did not have a material impact on our condensed consolidated financial statements.

Critical Accounting Estimates and Assumptions

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make judgments, estimates and assumptions in the preparation of our condensed consolidated financial statements and accompanying notes. Actual results could differ from those estimates. We believe there have been no significant changes in our critical accounting policies discussed in our Annual Report on Form 10-K for the year ended December 31, 2009.

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Results of Operations

For the three months ended March 31, 2010 and 2009 product sales were \$18.0 million and \$15.1 million, respectively. Our revenue growth was attributable to an increase in the quantity of ZADAXIN sold primarily due to further market penetration in China. For the three months ended March 31, 2010 and 2009, product sales to China were \$17.0 million and \$14.6 million, or 95% and 97% of sales, respectively. All product sales in each period were derived from sales of ZADAXIN.

For the three-month period ended March 31, 2010, sales to two importing agents in China accounted for approximately 59% and 29% of our product sales. For the three-month period ended March 31, 2009, sales to two importing agents in China accounted for approximately 65% and 32% of our product sales. The two largest customers were the same importing agents in each of these periods.

Gross margin on product sales was 84.6% for the three-month period ended March 31, 2010, as compared to 82.3% for the corresponding period in 2009. The increase in gross margin was attributable to lower per vial production costs resulting from higher production volume. We expect cost of product sales and gross margins to fluctuate from period to period depending upon the level of sales and price of ZADAXIN, the absorption of product-related fixed costs, currency exchange fluctuations, and any charges associated with excess or expiring finished product inventory.

Research and development expenses were \$2.7 million for the three-month period ended March 31, 2010, compared to \$4.8 million for the corresponding period in 2009. The decrease was primarily related to the timing of clinical trial-related expenses including the completion of enrollment of patients in our phase 2 clinical trial of SCV-07 for the delay to onset of severe oral mucositis in the first quarter of 2010 and the discontinuation of the RP101 clinical trial for the treatment of pancreatic cancer last year. These decreases were partially offset by increased expenses related to our SCV-07 phase 2 clinical trial for the treatment of HCV.

The major components of R&D expenses include salaries and other personnel-related expenses, including associated stock-based compensation, facility-related expenses, depreciation of facilities and equipment, license-related fees, services performed by clinical research organizations and research institutions and other outside service providers, and the sharing of certain costs for the development of ZADAXIN by our partner, Sigma-Tau.

The initiation and continuation of our current clinical development programs has had and is expected to continue to have a significant effect on our research and development expenses. Actual costs incurred in future periods will vary depending in particular upon timeline and design for further clinical trials and final decisions regarding the timing and expense sharing arrangements for these trials. An expansion or significant extension of our clinical development programs may require us to seek additional capital resources. We are evaluating opportunities to acquire or in-license the marketing rights to proprietary products primarily in China, which may result in increased research and development expenses due to license fee payments or other expenses related to in-licensing and development of new products in the future.

Sales and marketing expenses were \$4.9 million for the three-month period ended March 31, 2010, as compared to \$4.1 million for the corresponding period in 2009. The increased level of sales and marketing expenses was primarily due to a \$0.4 million increase in employee-related costs and a \$0.3 million increase in conference expense as a result of increased local seminar participation and sales meetings as we continued to expand sales efforts for ZADAXIN in the 2010 period. We expect sales and marketing expenses to increase for the remainder of 2010 related to expanding sales efforts, primarily in China.

General and administrative expenses were \$3.2 million for both the three-month periods ended March 31, 2010 and 2009.

Provision for income tax was \$0.2 million for both the three-month periods ended March 31, 2010 and 2009 and relates to our foreign operations in China. The increase in the 2010 period related to increased operating activity in China and an increased statutory tax rate in China from 20% in 2009 to 22% in 2010.

Liquidity and Capital Resources

Days' sales outstanding in accounts receivable, using the average receivables method, were 97 and 100 days for the three-month periods ended March 31, 2010 and 2009, respectively. The majority of our sales are to customers in China where our accounts receivable collections have standard credit terms ranging from 90 to 180 days.

At March 31, 2010 and December 31, 2009, we had \$39.1 million and \$31.8 million, respectively, in cash and investments, including \$1.0 million and \$1.6 million, respectively, of ARS recorded at fair value as trading securities. The ARS are investments with contractual maturities generally between 20-32 years whose underlying assets are student loans that are substantially backed by the federal government with interest rates resetting approximately every 30 days through an auction process. At the end of each reset period, investors may sell or continue to hold the securities at par. Disruptions in the credit markets have adversely affected the market for ARS. However, we do not believe that the underlying securities or collateral have been permanently affected and we continue to earn interest on our ARS.

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Net cash provided by (used in) operating activities was \$7.0 million and (\$5.5) million, for the three months ended March 31, 2010 and 2009, respectively. Net cash provided by (used in) operating activities for the three months ended March 31, 2010 and 2009, primarily reflected the net income for the periods, adjusted for non-cash items such as employee stock compensation expense, depreciation and amortization expense and changes in operating assets and liabilities. For the three months ended March 31, 2010, such changes included a \$4.5 million decrease in accounts receivable as a result of cash received from customers and an increase in inventory levels by \$1.0 million to meet expected sales demands. For the three month period ended March 31, 2009, such changes included an increase of \$5.2 million in our accounts receivable related to normal fluctuations in the timing of payments received from customers.

Net cash provided by (used in) investing activities was \$0.6 million and (\$49,000) for the three months ended March 31, 2010 and 2009, respectively. Cash provided by (used in) investing activities was primarily related to proceeds from the sale and maturity of investments, net of purchases of property and equipment.

Net cash provided by financing activities of \$0.3 million for the three months ended March 31, 2010 consisted of proceeds from the exercise of stock options made under our stock award plans.

In November 2008, SciClone and its subsidiaries, SciClone Pharmaceuticals International Ltd. (“SPIL”) and SciClone Pharmaceuticals International China Holding Ltd. (“SPIL China”) as borrowers, entered into a loan and security agreement and an unconditional guaranty and security agreement with Silicon Valley Bank (the “Credit Facility”). The Credit Facility is a line-of-credit that permits borrowing up to \$6 million for a term of 36 months, subject to certain sublimits, including \$2.5 million for letters of credit. The Credit Facility is secured by a first priority secured interest in all of our assets, other than intellectual property. The Credit Facility also requires us to obtain a credit insurance policy insuring certain foreign account receivable assets. SciClone Pharmaceuticals, Inc., as the parent of SPIL and SPIL China, is the guarantor of the Credit Facility. The Credit Facility expires in November 2011, and upon termination all amounts borrowed must be repaid in full. As of March 31, 2010, there were no outstanding borrowings under the Credit Facility.

The Credit Facility bears interest at the bank’s prime rate plus 1.75% on outstanding balances. We are required to meet certain financial covenants, including minimum consolidated revenue, and minimum consolidated earnings before interest and income tax, as defined, and since November 14, 2009, have been subject to certain minimum fees and interest payments. We are also required to meet certain operating covenants that limit our ability to incur liabilities, create liens, make capital expenditures, pay dividends or distributions, make investments, and dispose of assets and to carry credit insurance.

In November 2009, we received a limited waiver to the Credit Facility to waive certain minimum fees and interest payments, and to waive the requirement to maintain a credit insurance policy. We are currently in compliance with the Credit Facility after giving effect to the limited waiver.

In May 2009, we filed a shelf registration statement on Form S-3 with the SEC under which we may offer and sell up to \$50.0 million of our securities, (plus an additional \$10.0 million that we could sell under an immediately effective related registration statement), assuming we continue to meet the SEC’s eligibility requirements for primary offerings on Form S-3.

We believe that our existing cash and investments and ongoing revenue generating business operations will be sufficient to support our current operating plan for at least the next 12 months. We have no current commitments to offer and sell any securities that may be offered or sold pursuant to our registration statement. To the extent that we raise additional capital by issuing equity securities, our stockholders may experience dilution. Debt financing, if available, may subject us to restrictive covenants and significant interest costs. To the extent that we raise additional funds through collaboration and licensing arrangements, we would be required to relinquish some rights to our technologies, product candidates or marketing territories. Additional financing or collaboration and licensing arrangements may not be available when needed either at all or, on favorable terms.

We intend to continue to explore alternatives for financing to provide additional flexibility in managing our operations, in-licensing or acquiring new products, particularly in China, and funding our clinical trials. The unavailability or the inopportune timing of any financing could prevent or delay our long-term product development and commercialization programs, either of which could hurt our business. We cannot assure you that funds from financings, if any, will be sufficient to conduct and complete further clinical trials or to acquire or in-license additional products. The need, timing and amount of any such financing would depend upon numerous factors, including the level of ZADAXIN sales, the timing and amount of manufacturing costs related to ZADAXIN, the availability of complementary products, technologies and businesses, the initiation and continuation of preclinical and clinical trials and testing, the timing of regulatory approvals, developments in relationships with existing or future collaborative parties, the status of competitive products, and various alternatives for financing. We have not determined the timing or structure of any transaction.

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Off-Balance Sheet Arrangements

There were no off-balance sheet arrangements in the three-month period ended March 31, 2010.

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 money market funds, certificates of deposit, term deposits, U.S. Treasury, or government agency notes. In the past, we also invested in highly-rated, auction rate securities. The auction rate securities are classified as trading securities as of March 31, 2010, and consequently, are recorded on the balance sheet at fair value with realized gains or losses reported as income (loss). All of our investments mature within one year from date of purchase except for our auction rate securities, which we have the right to sell at par value, at our sole discretion, anytime during the period from June 30, 2010 through July 2, 2012, and our Italian state bonds which mature in 2013. Our investment securities may be subject to interest rate risk and could decrease in value if market interest rates rise. To minimize this risk, we primarily hold securities that are short-term in duration and maintain an average maturity of less than one year. We believe that our exposure to interest rate risk is not significant and a 1% movement in market interest rates would not have a significant impact to the total value of our investment portfolio at March 31, 2010. We do not hold any derivative financial instruments for speculation or trading purposes.

We determined the fair market values of our financial instruments based on the fair value hierarchy that requires an entity to maximize the use of observable inputs (level 1 and level 2 inputs) and minimize the use of unobservable inputs (level 3 inputs) when measuring fair value. We categorized our \$1.2 million par value ARS as level 3 in short-term investments due to the failures in the markets to provide quoted market prices for the ARS securities as well as the lack of any correlation to these instruments to other observable market data. We valued these securities using a pricing model. Significant inputs that went into the model were the credit quality of the issuer, the percentage and types of guarantees (such as Federal Family Education Loan Program-FFELP), the probability of the auction succeeding or the security being called, an illiquidity discount factor, and tax status. At March 31, 2010, the ARS were recorded at their determined fair value of \$1.0 million and the loss of \$0.2 million had been realized in our financial statements. Changes in the assumptions of the model based on dynamic market conditions could have a significant impact on the valuation of these securities, which may lead us in the future to take further losses or gains for these securities.

We have recorded our Put Option at its fair value of \$0.1 million in prepaid expenses and other current assets on our accompanying condensed consolidated balance sheet as of March 31, 2010. We estimate the fair value of the Put Option based on a discounted cash flow model. The assumptions used in preparing the discounted cash flow model include estimates for interest rates, estimates for discount rates using yields of comparable traded instruments adjusted for illiquidity and other risk factors, and amount of cash flows for the expected holding period. These inputs reflect our assumptions about risk, developed based on the best information available in the circumstances. Changes in the assumptions of the model based on dynamic market conditions could have a significant impact on the valuation of this asset, which may lead us in the future to record gains or losses for this asset.

Substantially all our sales and most of our manufacturing costs to date have been in U.S. dollars. However, some of our purchases with contract manufacturers are denominated in euros and costs of our marketing efforts in China are paid in local currency. In addition, we have certain cash balances denominated in euros. As a result, we are exposed to foreign currency rate fluctuations, and we do not hedge against the risk associated with such fluctuations. Consequently, changes in exchange rates could result in material exchange losses and could unpredictably, materially and adversely affect our operating results and stock price. Such losses have not been significant to date.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Under the supervision and with the participation of our management, including our Chief Executive Officer (“CEO”) and Chief Financial Officer (“CFO”), we evaluated the effectiveness of our disclosure controls and procedures, as such term is defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934, as amended. Based on this evaluation, our CEO and CFO concluded that our disclosure controls and procedures were effective as of the end of the period covered by this quarterly report.

Changes in Internal Controls

There has been no change in the Company’s internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Securities Act of 1934, as amended) that was identified in connection with the evaluation thereof that occurred during the first quarter of 2010 that has materially affected, or is reasonably likely to materially affect, the Company’s internal control over financial reporting.

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Limitations of the Effectiveness of Internal Controls

A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the internal control system are met. Because of inherent limitations in any control systems, no evaluation of controls can provide absolute assurance that all control issues, if any, within a company have been detected. We are continuously seeking to improve the efficiency and effectiveness of our operations and of our internal controls. This results in refinements to processes throughout our organization.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

None

Item 1A. Risk Factors

Our risk factors are set forth below in their entirety. The list is not exhaustive and you should carefully consider these risks and uncertainties before investing in our common stock. We have marked with an asterisk (*) those risk factors below that reflect substantive changes from the risk factors included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission on March 16, 2010.

Our stock price may be volatile, and an investment in our stock could suffer a decline in value. *

We have a history of operating losses and an accumulated deficit. Although we reported net income of \$11.9 million for the year ended December 31, 2009 and \$4.2 million for the three months ended March 31, 2010, we have experienced significant operating losses in the past, and as of March 31, 2010, we had an accumulated deficit of approximately \$160.7 million. If our operating expenses were to increase or if we were not able to increase or sustain revenue, we may not achieve profitability over the next 12 months.

The market price of our common stock has experienced, and may continue to experience, substantial volatility due to many factors, some of which we have no control over, including:

- actual or anticipated fluctuations in our quarterly operating results;
- progress and results of clinical trials;
- progress of thymalfasin and SCV-07 through the regulatory process, especially regulatory actions and the adequacy of clinical data and documentation for regulatory purposes in the United States, Europe, China and Japan;
- finding a partner for late-stage trials of our clinical development candidates;
- progress of DC Bead™ and ondansetron RapidFilm™ through required clinical studies and the regulatory process, especially regulatory actions and the adequacy of clinical data and documentation for regulatory purposes in China and Vietnam;
- timing and achievement of milestones;
- changes in our agreements or relationships with collaborative partners;
- announcements of technological innovations or new products by us or our competitors;
- announcement and completion of corporate acquisition, merger, licensing or marketing arrangements, or sales of assets;
- government regulatory action affecting our drug products or our competitors' drug products in China, the United States and other foreign countries;
- developments or disputes concerning patent or proprietary rights;
- changes in the composition of our management team or board of directors;
- changes in company assessments or financial estimates by securities analysts;

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- changes in assessments of our internal controls over financial reporting;
- general stock market conditions and fluctuations for the emerging growth and pharmaceutical market sectors;
- economic and political conditions in the United States or abroad; and
- broad financial market fluctuations in the United States, Europe or Asia.

Our revenue is dependent on our sale of ZADAXIN in China, and if we experience difficulties in our foreign sales efforts, our operating results and financial condition will be harmed. *

Our product revenue is highly dependent on the sale of ZADAXIN in China. If we experience difficulties in our foreign sales efforts in China, our business will suffer and our operating results and financial condition will be harmed. For the three months ended March 31, 2010 and 2009, approximately 95% and 97%, respectively, of our ZADAXIN sales were to customers in China. Sales of ZADAXIN in China may be limited due to the low average personal income, lack of patient cost reimbursement, poorly developed infrastructure and competition from other products, including generics. ZADAXIN sales growth in recent years has benefited from the rapidly growing Chinese economy and growing personal disposable income. Sales of ZADAXIN in China could be adversely affected by a slowing or downturn of the Chinese economy.

In China, ZADAXIN is approved only for the treatment of hepatitis B virus (“HBV”) and as a vaccine adjuvant. We face competition from pharmaceutical companies who are aggressively marketing competing products for the treatment of HBV and other indications where we believe ZADAXIN may be used on an off-label basis. In addition, several local companies are selling lower-priced, locally manufactured generic thymosin, which is a competitive product and is selling in substantial and increasing quantities. While generic products outsell ZADAXIN in unit volumes, we have been able to maintain an advantage through the reputation of our imported, branded product. We expect such competition to continue and there could be a negative impact on the price and the volume of ZADAXIN sold in China, which would harm our business. Our efforts to in-license or acquire other pharmaceutical products for marketing in China and other markets may be unsuccessful or even if successful may not have a meaningful effect on our dependence on ZADAXIN sales in those markets.

In November 2009, thymosin alpha 1, the generic chemical name for our pharmaceutical product ZADAXIN, was included as a Category B product in the National Reimbursed Drug List. We will have to negotiate a new price at the time that our product is reviewed for price adjustment by the authorities. China regulates pharmaceutical prices and pharmaceutical importation. These regulations may reduce prices for ZADAXIN to levels significantly below those that would prevail in an unregulated market, limit the volume of product which may be imported and sold or place high import duties on the product, any of which may limit the growth of our revenues or cause them to decline. We believe that the Chinese government is increasing its efforts to reduce overall health care costs, including through pricing controls. Individual provinces in China and, in some cases, individual hospitals can and have established pricing requirements for a product to be included on formulary lists. In some cases, these prices have been lower than our distributors have been selling ZADAXIN in which case we have been removed from formulary lists, which consequently has reduced sales to certain hospitals and could adversely affect our future sales. The Chinese national and provincial governments regulate product pricing and the maximum prices for ZADAXIN at the provincial level over the next several years, and potentially at the national level. The process and timing for this is unpredictable. We are working on these regulatory processes as well as on potential changes in our business model depending on potential outcomes. We believe we will be able to successfully manage our business in China through this process, however maximum prices could be set at some time in the future which could adversely affect our results or require substantial changes in our business model which may be difficult to implement.

We have received regulatory approvals to import and market ZADAXIN in China and to manufacture ZADAXIN and export the product from Italy. In order to continue our sales to China, we need to maintain these approvals. Our license to import ZADAXIN into China needs to be renewed every five years and the next renewal is required in 2013. Although we were successful in obtaining a renewal in 2008, there is no assurance that we will receive renewals in the future when applied for or that the renewals will not be conditioned or limited in ways that limit our ability to sell ZADAXIN in China. Further, our licenses to manufacture and export ZADAXIN from Italy are dependent upon our continuing compliance with regulations in Italy. Our business would be adversely affected if we are not able to maintain these approvals. In order to sell ZADAXIN to the licensed importers in China, our manufacturers must 1) be approved by the Italian Ministry of Health (“AIFA”) and 2) be accepted by the State Food and Drug Administration of China (“SFDA”), the Chinese equivalent to the United States Food and Drug Administration (“FDA”), and we must obtain an Imported Drug License from the SFDA permitting the importation of ZADAXIN into China. The license must be renewed every five years, and if we change manufacturers, these changes must 1) be approved by the AIFA in Italy and 2) be accepted by the SFDA. When we change manufacturers we must obtain a new approval. We are currently in the process of changing manufacturer and if we are not successful in obtaining the necessary approval in a timely manner, our business would be adversely affected.

Our ZADAXIN sales and operations in other parts of China and the world are subject to a number of risks and increasing regulations, including difficulties and delays in obtaining registrations, renewals of registrations, permits, pricing approvals and reimbursement, increasing regulation of product promotion and selling practices, unexpected changes in regulatory requirements and political instability. In addition, during the second quarter of 2009 we experienced a strong upsurge in

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ZADAXIN sales which we believe was attributable both to the increasing penetration of ZADAXIN within the Chinese market, as well as concerns in China from the H1N1 flu virus. Although we believe that ZADAXIN sales have returned to levels more consistent with our established business, if distributors and hospitals that purchase ZADAXIN stockpile more ZADAXIN than needed for current use, our sales of ZADAXIN may suffer as distributors and hospitals use ZADAXIN already in their inventory before purchasing additional product from us. This could lead to uneven future revenue results for ZADAXIN and in turn materially impact our cash flow and business condition.

We experience other issues with managing foreign sales operations including long payment cycles, potential difficulties in accounts receivable collection and, especially from significant customers, fluctuations in the timing and amount of orders and the adverse effect of any of these issues on our business could be increased due to the concentration of our business with a small number of distributors. Problems with collections from, or sales to, any one of those distributors could materially adversely affect our results. Operations in foreign countries including China also expose us to risks relating to difficulties in enforcing our proprietary rights, currency fluctuations and adverse or deteriorating economic conditions. If we experience problems with obtaining registrations, complying with reimbursement rules or compliance with foreign country or applicable U.S. laws, adverse or mixed outcome of clinical studies anywhere in the world, or if we experience difficulties in payments or intellectual property matters in foreign jurisdictions, or if significant political, economic or regulatory changes occur, our results could be adversely affected. Moreover, our operations throughout the world including China are potentially subject to the laws and regulations of the United States including the Foreign Corrupt Practices Act, in addition to the laws and regulations of the local countries. Regulation in China of the activities in the pharmaceutical industry has increased and may continue to undergo significant and unanticipated changes. A number of companies have faced significant expenses or fines as a result of the increasing regulation of, and enforcement activity regarding, the pharmaceutical industry. If we fail to comply with regulations or to carry out controls on our Chinese or other foreign operations in a manner that satisfies all applicable laws, our business would be harmed.

The Chinese government has been engaged in an extensive stimulus program in China over the past year. We believe that the Chinese government is reducing these stimulus programs. We believe these programs have had broad effects across the Chinese economy, and the reduction or withdrawal of these programs could adversely affect spending in numerous ways, including reduction of spending on pharmaceutical products including ZADAXIN.

Our sales of ZADAXIN may fluctuate due to seasonality of product orders and sales in any quarter may not be indicative of future sales.

Our sales for the quarter ended June 30, 2009 were greatly affected by the demand in China for ZADAXIN which we believe was in connection with Influenza A (H1N1). Similarly, our sales for the quarter ended June 30, 2003 were greatly affected by the demand in China for ZADAXIN in connection with the treatment of Severe Acute Respiratory Syndrome (“SARS”). To date, SARS has not re-emerged, like influenza, as a seasonal public health problem. However, it is not possible to predict what effect, if any, H1N1, SARS, or similar epidemics would have on future sales of ZADAXIN, if they were to emerge. Although we do not market ZADAXIN for use in treating epidemic diseases such as Influenza A (H1N1) or SARS, if ZADAXIN is purchased in connection with outbreaks of seasonal viral contagions, product sales could become more concentrated in certain quarters of the calendar year, quarterly sales levels could fluctuate and sales in any quarter may not be indicative of sales in future periods.

We may lose market share or otherwise fail to compete effectively in the intensely competitive pharmaceutical industry.

Competition in the pharmaceutical industry in China is intense, and we expect that competition will increase. Our success depends on our ability to compete in this industry, but we cannot assure you that we will be able to successfully compete with our competitors. Increased competitive pressure could lead to intensified price-based competition resulting in lower prices and margins, which would hurt our operating results. 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 our targeted indications that will be superior to ours.

We depend on sales in China, and global conditions could negatively affect our operating results or limit our ability to expand our operations outside of China. Changes in China’s political, social and economic environment may affect our financial performance.

A large majority of our sales are in China. Heightened tensions resulting from the current geopolitical conditions in the Middle East, North Korea and elsewhere could worsen, causing disruptions in foreign trade, which would harm our sales. In particular, our commercial product is manufactured in Europe and distributed by us from our operations in Hong Kong. Any disruption of our supply and distribution activities due to geopolitical conditions could decrease our sales and harm our operating results.

With respect to China, our financial performance may be affected by changes in China’s political, social and economic environment. The role of the Chinese central and local governments in the Chinese economy is significant. Chinese policies toward economic liberalization, and laws and policies affecting foreign companies, currency exchange rates and other matters

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could change, resulting in greater restrictions on our ability to do business in China. Any imposition of surcharges or any increase in Chinese tax rates could hurt our operating results. The Chinese government could revoke, terminate or suspend our license for national security and similar reasons without compensation to us. If the government of China were to take any of these actions, we would be prevented from conducting all or part of our business. Any failure on our part to comply with governmental regulations could result in the loss of our ability to market our products in China.

Because of China’s tiered method of importing and distributing finished pharmaceutical products, our quarterly results may vary substantially from one period to the next. *

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 typically place large, and therefore relatively few, orders within an annual period. Therefore, our sales to an importing agent can vary substantially from quarter to quarter depending on the size and timing of the orders, which has in the past and may in the future cause our quarterly results to fluctuate. We rely on a limited number of importers, in any given quarter, to supply substantially all of our product in China. Because we use a small number of importing agents in China, our receivables from any one importing agent are material, and if we were unable to collect receivables from any importer, our business and cash-flow would be adversely affected.

We may be subject to currency exchange rate fluctuations, which could adversely affect our financial performance.

Substantially all of our product sales are denominated in U.S. dollars. Fluctuation in the U.S. dollar exchange rate with local currency directly affects the customer’s cost for our product. In particular, a stronger U.S. dollar vis-à-vis the local currency would tend to have an adverse effect on sales and potentially on collection of accounts receivable. China currently maintains the value of the renminbi in a narrow currency trading band that may or may not fluctuate based upon government policy. Depending on market conditions and the state of the Chinese economy, it is possible that China could make future adjustments, including moving to a managed float system, with opportunistic interventions. This reserve diversification may negatively impact the United States dollar and U.S. interest rates. A trend to a stronger U.S. dollar would erode margins earned by our Chinese importers and prompt them to ask us to lower our prices. We are subject to currency exchange rate fluctuations as a result of expenses incurred by our foreign operations. In particular, one of our supply arrangements under which we purchase finished products is denominated in euros and costs of our operations in China are paid in local currency. Consequently, changes in exchange rates could unpredictably and adversely affect our operating results and could result in exchange losses. To date, we have not hedged against the risks associated with fluctuations in exchange rates and, therefore, exchange rate fluctuations could have a material adverse impact on our future operating results and stock price.

Our business strategy is dependent on our ability to in-license or otherwise acquire the rights to develop and commercialize products, particularly in China. If we fail to acquire such rights or are unsuccessful in our efforts to develop such products and obtain regulatory approval to market and successfully commercialize them, our business will suffer.

All of our products, including ZADAXIN, the only one for which we have sales revenue, have been in-licensed by us. We do not conduct product discovery and typically have in-licensed our products from third parties who have discovered the products and conducted at least some pre-clinical research on them. We are particularly focused on in-licensing products for the China market and the competition for attractive products to in-license is intense, and we cannot assure you that we will be able to in-license products in the future on acceptable terms, if at all. In addition, we face the risks of developing the in-licensed products and the risks and uncertainties of conducting clinical trials and seeking regulatory approval to market the in-licensed products, all of which require years of effort and the commitment of significant financial resources. Our ability to grow our business requires the development and commercialization of additional products. If we are unable to in-license or acquire products on acceptable terms and successfully develop and commercialize them, our business could be harmed.

We may engage in acquisitions and must successfully integrate any acquired products or companies in order to avoid a material disruption to our business and material adverse effects to our financial results.

We may engage in one or more acquisitions of products or companies. Acquisitions involve numerous risks, including the following:

- difficulties and costs in integrating the operations, technologies, products and personnel of the acquired businesses;
- inadequate internal control procedures and disclosure controls to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or poor integration of a target company’s or businesses’ procedures and controls;
- diversion of management’s attention from normal daily operations of the business;
- potential difficulties in completing projects associated with in-process research and development;

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- difficulties in entering markets in which we have no or limited direct prior experience and where competitors in such markets have stronger market positions;
- insufficient net revenue to offset increased expenses associated with acquisitions;
- potential failure to achieve commercial expectations;
- potential loss of key employees of the acquired companies; and
- difficulty in forecasting revenues and margins.

Acquisitions may also cause us to:

- issue common stock that would dilute our current shareholders' percentage ownership;
- assume liabilities, some of which may be unknown at the time of such acquisitions;
- record goodwill and intangible assets that will be subject to impairment testing and potential periodic impairment charges;
- incur amortization expenses related to certain intangible assets;
- incur large and immediate write-offs of in-process research and development costs; or
- become subject to litigation.

Mergers and acquisitions of pharmaceutical companies inherently entail risk, and no assurance can be given that any future acquisitions will be successful or will not adversely affect our business, operating results, or financial condition. Failure to manage and successfully integrate acquisitions could harm our business and operating results in a material way. Even when an acquired company has already developed and marketed products, there can be no assurance of the continued prospects or success of such products or that pre-acquisition due diligence will have identified all possible issues that might arise with respect to such products.

We may not be able to successfully develop or commercialize our products.

While we have sales of ZADAXIN (“thymalfasin or thymalfasin alpha 1”) in certain markets, regulatory approval does not exist at this time for ZADAXIN for the key markets of the United States, Europe (outside of Italy) and Japan and, in this respect ZADAXIN is still being developed. In 2006, we acquired the rights to distribute DC Bead in China, but we must receive regulatory approval before we can commercialize this product. We previously believed that regulatory approval for DC Bead in China would be forthcoming in 2009. However, the SFDA required us to conduct a local trial in China to supplement data already obtained from a previous DC Bead study. This study is underway and if the trial results are positive, we expect to receive regulatory approval for DC Bead in the first half of 2011. Our other potential products presently are SCV-07 and ondansetron RapidFilm and each of them is in an earlier stage of development than ZADAXIN. Clinical trial outcomes are uncertain. For example, in October 2009, we halted our phase 2 trial of RP101 and we have no plans to proceed with further development of RP101 at this time. We may consider and undertake various strategies to expand our portfolio of potential products, including acquiring product candidate rights through licenses or other relationships, or through other strategic relationships including acquisitions of other companies that may have proprietary rights to other development candidates or the capability to discover new drug candidates. Such transactions could require a substantial amount of our financial resources, or, if equity is involved, may result in substantial dilution to current stockholders. Strategic transactions also require substantial management time and effort and are subject to various risks that could adversely affect us or our financial results.

To fully develop our products, substantial resources are required for extensive research, development, pre-clinical testing, clinical trials, manufacturing scale-up and regulatory approval prior to the potential products being ready for sale. We cannot assure that our efforts will produce commercially viable products. 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. For DC Bead, we are obligated to pay half of the costs in our efforts to obtain regulatory approval in China and, due to recent events, the total amount of costs for DC Bead will increase. For ondansetron RapidFilm, we are obligated to make a milestone payment upon regulatory approval. 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 and our sales have been primarily to a single country, China. Our future revenue growth depends to a great extent on increased market acceptance and commercialization of ZADAXIN in additional countries, as well as our ability to increase sales in China. If we fail to successfully market ZADAXIN or if we cannot commercialize this drug in the United States and other additional markets, our revenue and operating results will be limited. If unexpected and serious adverse events are reported, or if expected efficacy results are not achieved, it would have a material adverse effect on our business. Our future revenue will also depend in part on our ability to develop other

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commercially viable and accepted products, such as DC Bead, ondansetron RapidFilm, and SCV-07. Market acceptance of our products will depend on many factors, including our ability to convince prospective customers to use our products as an alternative to other treatments and therapies and to convince prospective strategic partners to market our products effectively and to manufacture our products in sufficient quantities with acceptable quality and at an acceptable cost. In addition, doctors must opt to use treatments involving our products. If doctors elect to use a different course of treatment, demand for our drug products would be reduced. Failure to do any of the above will lead to an unfavorable outcome on the results of our operations.

We cannot predict the safety profile of the use of thymalfasin, DC Bead, ondansetron RapidFilm or SCV-07 when used in combination with other drugs.

Many of our trials involve the use of thymalfasin in combination with other drugs. SCV-07 may be developed to be used in combination with other drugs. Some of these drugs, particularly pegylated interferon alpha, ribavirin, non-pegylated interferon alpha, dacarbazine and gemcitabine are known to cause adverse patient reactions. We cannot predict how thymalfasin, DC Bead, ondansetron RapidFilm or SCV-07 will work with other drugs, including causing possible adverse side effects not directly attributable to the other drugs that could compromise the safety profile of thymalfasin, DC Bead, ondansetron RapidFilm or SCV-07 when used in certain combination therapies.

Final results from our proposed or ongoing clinical trials for thymalfasin, SCV-07, ondansetron RapidFilm, and DC Bead may differ materially from interim or pre-clinical trial results. These clinical trials could be affected by the future actions of our partners, unexpected delays, unanticipated patient drop out rates or adverse side effects, future actions by the SFDA or the FDA or equivalent regulatory authorities in Europe or other countries or additional expenses.

Our ability to achieve and sustain operating profitability depends in large part on our ability to commence, execute and complete clinical programs and obtain additional regulatory approvals for ZADAXIN and other drug candidates.

Clinical trials are inherently risky and may reveal that our product candidates are ineffective or have unanticipated side effects and/or drug interactions that may significantly decrease the likelihood of regulatory approval. In October 2009, we announced the discontinuation of our phase 2 clinical trial evaluating RP101, a nucleoside analog known as BVdU, for the treatment of late-stage pancreatic cancer. This decision followed the recommendation of the trial's Data Safety Monitoring Committee ("DSMC") based upon the data reviewed and we have no plans to proceed with further development of RP101 at this time. In addition, on November 5, 2008, we announced the top-line results from a large, randomized, phase 3 clinical trial evaluating thymalfasin in combination with pegylated interferon alpha-2a ("peg-IFN-2a") and ribavirin ("RBV") as a treatment for patients with hepatitis C virus ("HCV") who have not responded to prior therapy consisting of peg-IFN and RBV alone (current standard of care). The thymalfasin treated group did not achieve statistical significance for the primary end point of sustained virological response ("SVR") as assessed in the primary analysis population, i.e. the intent-to-treat population. In the prospectively defined secondary population of patients who completed the full course of 48 weeks of treatment with thymalfasin in addition to peg-IFN-2a and RBV ("Completer Population"), the primary endpoint was achieved with statistical significance. These results did not meet our expectations based upon prior clinical trials. Similarly, the results of our thymalfasin phase 2 melanoma clinical trial do not necessarily predict future clinical or commercial success. Finally, the results of studies in DC Bead, ondansetron RapidFilm, SCV-07, including a phase 2a for HCV, pre-clinical and phase 1 trial results also do not predict clinical or commercial success.

We may face numerous unforeseen events during, or as a result of, clinical trials that could delay or prevent commercialization of our product candidates including: our product candidate clinical trials may not prove statistical significance; negative or inconclusive clinical trial results may require us to conduct further testing or we may choose to abandon projects that we had been expecting to complete; clinical trials may be halted due to safety reasons; patient drop out rates in our clinical trial may be higher than anticipated; the FDA, its European equivalent EMEA or the SFDA may not approve our products for commercialization or may require additional clinical trial data prior to approving our products; and/or our future expenses and ability to proceed with a trial may be dependent in part on finding a partner. Moreover, if the outcome of any of these trials is unsuccessful, or even if successful, does not achieve commercially meaningful results, our business could be harmed.

If third-party reimbursement is not available or patients cannot otherwise pay for ZADAXIN, DC Bead, ondansetron RapidFilm, or SCV-07, we may not be able to successfully market them.

Significant uncertainty exists as to the reimbursement status of new therapeutic products, such as ZADAXIN, and once commercialized, DC Bead, ondansetron RapidFilm and SCV-07. We cannot assure you that third-party insurance coverage and reimbursement will be available for therapeutic products we might develop. Reimbursement is generally not available for ZADAXIN in China and we cannot assure you that we will be able to maintain existing reimbursements or increase third-party payments for ZADAXIN or obtain third-party payments for DC Bead in China or ondansetron RapidFilm in China including Hong Kong and Macau, or Vietnam. The failure to obtain or maintain third-party reimbursement for our products would harm our business. Further, we cannot assure you that additional limitations will not be imposed in the future in the United States or elsewhere on drug coverage and reimbursement due to proposed health care reforms. In many emerging markets where we have marketing rights to ZADAXIN, but where government resources and per capita income may be so low that our products will be prohibitively expensive, we may not be able to market our products on economically favorable terms, if at all.

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Efforts by governmental and third-party payers to contain or reduce health care costs or the announcement of legislative proposals or reforms to implement government controls could cause us to reduce the prices at which we market our drugs, which would reduce our gross margins and may harm our business.

If we do not obtain regulatory approval for thymalfasin, SCV-07, ondansetron RapidFilm or DC Bead for the intended indications that we are evaluating, our revenues will be limited and our operating results may be materially affected.

Our ability to execute on our business strategy is largely dependent on our ability to obtain regulatory approval for the use of thymalfasin in major markets, for the use of SCV-07 in major markets, excluding Russia, for the use of ondansetron RapidFilm in China including Hong Kong and Macau, and Vietnam, and for the use of DC Bead in China. The regulatory approval processes in the United States, Europe and China are demanding and typically require 12 months or more in the United States and China and 18 months or more in Europe from the date of submission of an NDA. We have committed significant resources, including capital and time, to develop these products, and intend to continue to do so, including the initiation and execution of additional clinical trials, with the goal of obtaining such approvals. If we do not obtain these approvals, we will be unable to achieve any revenue from these products in these major markets and our thymalfasin sales in other jurisdictions could decline.

We believed that regulatory approval for DC Bead would be forthcoming in 2009. However, the SFDA required us to conduct a local trial in China to supplement data already obtained from a previous DC Bead study. The study is underway and if the trial results are positive, we expect to receive regulatory approval for DC Bead in the first half of 2011. However, we cannot give assurance that such submission will be approved by the regulatory authorities. If additional clinical trials in China are required as part of the regulatory process, the regulatory submission for marketing approval could be delayed for a considerable period of time, and there can be no assurance that the results of clinical trials would support a regulatory submission or that the regulatory authorities would approve the product to be commercialized and sold in China. To the extent that additional information or clinical trials are required by the regulatory authorities, or we do not receive regulatory approval in China, our future sales potential in China could be harmed.

All new drugs, including our products, which have been developed or are under development, are subject to extensive and rigorous regulation by the FDA, SFDA and similar regulatory agencies. These regulations govern, among other things, the development, testing, manufacturing, labeling, storage, pre-market approval, importation, advertising, promotion, sale and distribution of our products. These regulations may change from time to time and new regulations may be adopted.

Satisfaction of government regulations may take 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 impose costly procedures upon our activities. Even if we obtain regulatory approval for our products, such approval may impose limitations on the indicated uses for which our products may be marketed. Further unsatisfactory data resulting from clinical trials may also adversely affect our ability to market and sell thymalfasin in markets where it is approved for sale.

We rely on third parties who are our sole source suppliers for our clinical trial and commercial products and their inability to deliver products that meet our quality-control standards could delay or harm one or more important areas of our business including our sales, clinical trials or the regulatory approval process.

We rely on third parties, who are subject to regulatory oversight, to supply our clinical and commercial products. For example, Biocompatibles is the sole supplier of DC Bead, Applied Pharma Research S.A. (“APR”) is the sole supplier of ondansetron RapidFilm, and Solvay Peptides S.A. is our sole supplier of SCV-07. Any unanticipated deficiencies in these suppliers, or the suppliers or our raw materials, and/or recall of the manufacturing lots or similar action regarding the pegylated interferon alpha, ribavirin or gemcitabine used in our clinical trials could delay the trials or detract from the integrity of the trial data and its potential use in future regulatory filings. In addition, manufacturing interruptions or failure to comply with regulatory requirements by any of these suppliers could significantly delay clinical development of potential products and reduce third-party or clinical researcher interest and support of proposed trials. These interruptions or failures could also impede commercialization of our products and impair our competitive position.

Further, any deficiencies or shortages in supply of our commercial products would adversely affect our ability to realize our sales plans. For example, the manufacturing of the raw material and the processing to finished product of ZADAXIN is done in few batches in any given three-month period and any manufacturing errors have the potential to require a product recall. During 2006, we experienced failures and lower yields on production runs from our sole supplier of bulk active pharmaceutical ingredient (“API”) product for the manufacture of ZADAXIN for our current markets, including China. During 2009, we experienced quality-control problems with a component of our ZADAXIN kit. Although we are taking steps to ensure that such problems do not continue, there is no assurance that we will either be successful in doing so with our current supplier or be able to timely and cost-effectively qualify a new supplier for this component. Manufacturing interruptions or failure or delay of product to meet quality assurance specifications could adversely affect shipments and recognition of sales of ZADAXIN in any period and impair our relationships with customers and our competitive position and may increase the cost of material produced.

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We are in the process of registering new suppliers for ZADAXIN with regulatory agencies in markets where thymalfasin is approved for sale, including China. This process, quality assurance and other steps could cause delays or interruptions of supply in certain other markets. In some countries, a manufacturing change may require additional regulatory approvals that may delay thymalfasin marketing approvals in new markets. In addition, if sales of ZADAXIN were to increase dramatically, our third-party suppliers may not be able to supply ZADAXIN either quickly enough or at a commercially reasonable cost, which could limit our ability to satisfy increased demand or could adversely affect the ability of these suppliers to provide products for our clinical trials. If any of our suppliers are unable to match our need for supply, either because of product defects, inability to increase supply in the face of increased demand, or maintain financially viable businesses, our ability to effect our sales and protect our brand reputation would be materially impaired, thereby materially and adversely affecting our sales and results of operations.

We rely on third parties for development of our products and the inability of any of these parties to reliably, timely or cost-effectively provide us with their obligated services could materially harm the timing of bringing our products to market and accordingly adversely affect our business.

We rely on third parties, such as contract research organizations, medical institutions, clinical investigators, contract laboratories, and collaborative partners in the conduct of clinical trials for our product candidates. If these parties, whom we do not control, do not successfully carry out their contractual duties or regulatory obligations or meet expected deadlines or choose not to continue their relationship with us, if the third parties need to be replaced, or if the quality or accuracy of the data they obtain is compromised due to the failure to adhere to our clinical protocols or regulatory requirements or for other reasons, our pre-clinical or clinical activities may be extended, delayed, suspended or terminated, and we may not be able to obtain regulatory approval for, or successfully commercialize our product candidates.

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 or promote our drugs, and if they are not successful in their efforts or fail to do so, our business will suffer. For example, Sigma-Tau is responsible for the development and marketing of ZADAXIN in most of Europe. Biocompatibles is providing SciClone with the necessary supporting documents to obtain regulatory approval in China for DC Bead, APR is providing SciClone with the necessary supporting documents to obtain regulatory approval in China including Hong Kong and Macau, and Vietnam for ondansetron RapidFilm. We generally do not have control over the amount and timing of resources that our business partners devote to our collaborative efforts, and some have not always performed as or when expected. If they do not perform their obligations as we expect, particularly obligations regarding clinical trials, our development expenses would increase and the development or sale of our products could be limited or delayed, which could hurt our business and cause our stock price to decline. In addition, our relationships with these companies may not be successful. Disputes may arise with our collaborators, including disputes over ownership rights to intellectual property, know-how or technologies developed with our collaborators. We may not be able to negotiate similar additional arrangements in the future to develop and commercialize ZADAXIN or other products.

If we are unable to manage our key personnel, or are unable to attract and retain additional, highly skilled and experienced personnel, our business will suffer.

We are highly dependent upon our ability to attract and retain qualified personnel because of the specialized, scientific and worldwide nature of our business. Further, we are also dependent on our ability to appropriately staff these personnel in appropriate positions as our business fluctuates. There is intense competition for qualified management, scientific, clinical, regulatory, and sales and marketing personnel in the pharmaceutical industry. There is significant turnover in the industry in China in particular, and we have recently experienced significant turnover in our sales personnel. We may not be able to attract and retain the qualified personnel we need to grow and develop our business globally. Conversely, in the event that we need to reduce the size of a particular aspect of our business, we are also dependent on our ability to make such adjustments while retaining suitably skilled personnel. Further, our efforts to in-license or acquire, develop and commercialize product candidates for China require the addition of clinical and regulatory personnel and the capabilities to expand our sales and marketing operation. In addition, we assign numerous key responsibilities to a limited number of individuals, and we would experience difficulty in finding immediate replacements for any of them were any one of them to choose to leave employment with us. If we were 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 be adversely affected. At this time, we do not maintain “key person” life insurance for any of our personnel.

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We may need to obtain additional funding to support our long-term product development and commercialization programs.

We believe our existing cash and investments and ongoing revenue generating business operations will be sufficient to support our current operating plan for at least the next 12 months. However, our ability to achieve and sustain operating profitability is dependent on numerous factors including our ability to achieve our goal of increasing sales of ZADAXIN, securing regulatory approval for DC Bead in China, and for ondansetron RapidFilm in China including Hong Kong and Macau, and Vietnam, the execution and successful completion of thymalfasin, SCV-07, and DC Bead clinical trials and securing partnerships for those programs that lead to regulatory approvals in major pharmaceutical markets. We cannot assure you that such funds from operating activities will be sufficient, or that we will attain profitable operations in future periods. In addition, we intend to develop other products and we may need additional funds in the future to support such development and to support future growth and achieve profitability. If we need to raise additional funds in the future and such funds are not available on reasonable terms, if at all, our commercialization efforts may be impeded, our revenues may be limited and our operating results may suffer.

If we fail to protect our products, technologies and trade secrets, we may not be able to successfully use, manufacture, market or sell our products, or we may fail to advance or maintain our competitive position, and we have limited intellectual property protection in China.

Our success depends significantly on our ability to obtain and maintain meaningful patent protection for our products and technologies and to preserve our trade secrets. Our pending patent applications may not result in the issuance of patents in the future. Our patents or patent applications may not have priority over others' applications. Our existing patents and additional patents that may be issued, if any, 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, market or sell our products or maintain our competitive position with respect to our products. Although many of our patents relating to thymalfasin have expired, including composition of matter patents, we have rights to other patents and patent applications relating to thymalfasin and thymalfasin analogues, including method of use patents with respect to the use of thymalfasin for certain indications. Additionally, thymosin alpha 1 ("thymalfasin"), the chemical composition of thymalfasin, has received Orphan Drug designation in the United States for the treatment of stage IIb through stage IV melanoma. If other parties develop generic forms of thymalfasin for other indications, including conducting clinical trials for such indications, our patents and other rights might not be sufficient to prohibit them from marketing and selling such generic forms of thymalfasin. If other parties develop analogues or derivatives of thymalfasin, our patents and other rights might not be sufficient to prohibit them from marketing these analogues or derivatives.

Pharmaceutical products are either not patentable or have only recently become patentable in some of the countries in which we market or may market thymalfasin. We do not have composition patent claims directed to the same form of thymalfasin currently marketed in China, our largest market, although we do have other type of patent claims, pending or issued, directed to other aspects of thymalfasin therapy. Other companies market generic thymosin alpha 1 in China, sometimes in violation of our patent, trademark or other rights which, to date, we have defended by informing physicians and hospitals of the practice. Past enforcement of intellectual property rights in many of these countries, including China in particular, 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 are involved in intellectual property claims and litigation, the proceedings may divert our resources and subject us to significant liability for damages, substantial litigation expense and the loss of our proprietary rights.

Our commercial success depends in part on our not infringing valid, enforceable patents or proprietary rights of third parties, and not breaching any licenses that may relate to our technologies and products. In addition, we may not be aware of all patents or patent applications that may impact our ability to make, use or sell any of our potential products. For example, U.S. patent applications may be kept confidential for 12 or more months while pending in the Patent and Trademark Office, and patent applications filed in foreign countries are often first published nine months or more after filing. 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, regardless of merit, would require us to devote resources and attention that could have been directed to our operations 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. Any conflicts resulting from the patent rights of others could significantly reduce the coverage of our patents and limit our ability to obtain meaningful patent protection.

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If other companies obtain patents with conflicting claims, we may be required to obtain licenses to those patents or develop or obtain alternative technology to manufacture or market the affected products and processes. We may not be able to obtain any such licenses on acceptable terms or at all. Any failure to obtain such licenses could delay or prevent us from pursuing the development or commercialization of our potential products. Our efforts to defend against any of these claims would require us to devote resources and attention that could have been directed to our operations and growth plans.

We may need to initiate litigation, which could be time-consuming and expensive, to enforce our proprietary rights or to determine the scope and validity of others' rights. If litigation results, a court may find our patents or those of our licensors invalid or may find that we have infringed on a competitor's rights. If any of our competitors have filed patent applications in the United States which claim technology we also have invented, the Patent and Trademark Office may require us to participate in expensive interference proceedings to determine who has the right to a patent for the technology. 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.

Substantial sales of our stock or equity in our subsidiaries or the exercise or conversion of options or convertible securities may impact the market price of our common stock.

Our collaborative partner Sigma-Tau and affiliates hold a substantial amount of our stock. The stock is freely tradable and Sigma-Tau is not under any obligation to SciClone which would prevent it from selling some or all of the stock it holds except for applicable U.S. insider trading regulations with respect to possession of material non-public information by Sigma-Tau or its officers and directors.

In May 2009, we filed a Form S-3 Shelf registration with the Securities and Exchange Commission ("SEC") which was later declared effective by the SEC and will allow us to sell securities in one or more offerings. Future issuances 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 or sell equity in a subsidiary, the percentage ownership of our present stockholders of the respective entities will be reduced and the price of our common stock may fall.

Our cash and investments are subject to certain risks which could materially adversely affect our overall financial position. *

We invest our cash in accordance with an established internal policy and customarily in instruments which historically have been highly liquid and carried relatively low risk. However, with turmoil in the credit markets, similar types of investments have experienced losses in value or liquidity issues which differ from their historical pattern. For example, we routinely have invested in money market funds with large financial institutions. One or more of these funds could experience losses or liquidity problems and, although to date some of the largest financial institutions who sponsor such funds have offset similar losses, there is no assurance that our financial institutions would either not incur losses or would offset any losses were they to occur. Further, we hold auction rate securities ("ARS") which are collateralized by student loans with most of such collateral in the aggregate being guaranteed by the U.S. government. These ARS are intended to provide liquidity via an auction process that resets the applicable interest rate at predetermined calendar intervals, usually every month. As of March 31, 2010, we held \$1.0 million of auction rate security investments and all of these had experienced failed auctions since February 2008. An auction failure means that the parties wishing to sell securities could not. When an auction fails, the interest rate on such securities resets to a default rate which is usually higher and would require payment by the issuer, affecting its creditworthiness and therefore potentially its ability to redeem such obligations and therefore avoid the higher interest payments.

In November 2008, we accepted an Auction Rate Securities Rights Offer ("Rights Offer") from UBS AG under which, in return for a general release of claims and the grant of a right to UBS AG to purchase our ARS at any time for full par value, we received the right to require UBS AG to purchase at par value our ARS beginning in 2010 ("the Rights"). The Rights are non-transferable. Upon acceptance, we granted UBS AG the sole discretion and right to sell or dispose of, and/or enter orders in the auction process with respect to the eligible ARS on our behalf-without prior notification to us from UBS AG, as long as we receive a payment at par upon any sale or disposition.

As a result, our ability to liquidate these investments and fully recover the carrying value of these investments in the near term is limited or may not exist. We have written down our ARS investments by \$0.2 million as of March 31, 2010. Should our ARS investments continue to lose value, or should any of our other cash investments permanently lose value or have their liquidity impaired, it would have a material and adverse effect on our overall financial position by imperiling our ability to fund our operations and forcing us to seek additional financing sooner than we would otherwise and such financing may not be available on commercially attractive terms.

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In addition, financial instruments may subject us to a concentration of credit risk. Substantially all of our cash, and cash equivalents are held by a limited number of financial institutions including all of our term deposits held by financial institutions in Hong Kong and offshore. Such term deposits do not exceed federally insured limits and to date, we have not experienced any losses on our deposits of cash and cash equivalents. However, if any of these instruments permanently lost value or had their liquidity impaired, it would also have a material and adverse effect on our overall financial position by imperiling our ability to fund our operations and forcing us to seek additional financing sooner than we would otherwise and such financing may not be available on commercially attractive terms.

New accounting pronouncements may impact our financial position or results of operations.

Future changes in financial accounting standards may cause adverse, unexpected fluctuations in the timing of the recognition of revenues or expenses and may affect our financial position or results of operations. New pronouncements and varying interpretations of pronouncements have occurred with frequency and may occur in the future and this may lead to changes in our accounting policies in the future.

If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results. As a result, current and potential stockholders could lose confidence in our financial reporting, which would harm our business and the trading price of our stock.

Effective internal controls are necessary for us to provide reliable financial reports and to protect from fraudulent, illegal or unauthorized transactions. If we cannot provide effective controls and reliable financial reports, our business and operating results could be harmed. Moreover, as a United States-based corporation doing business in China, these controls often need to satisfy the requirements of Chinese law as well as the requirements of United States law which frequently differ in certain aspects. We have in the past discovered, and may in the future discover, areas of our internal controls that need improvement. For example, our management determined that as of December 31, 2008 we had a material weakness in our internal controls related to our failure to expense approximately \$540,000 in research and development costs related to changes in the scope of activities performed by our clinical research organization during 2008. Although we have since taken steps to rectify this material weakness, there can be no assurance that we will be successful in this regard. Any failure to implement and maintain controls over our financial reporting, or difficulties encountered in the implementation of improvements in our controls, could cause us to fail to meet our reporting obligations. Any failure to improve our internal controls or to address identified weaknesses in the future, including with respect to our clinical research expenses, if they were to occur, could also cause investors to lose confidence in our reported financial information, which could have a negative impact on the trading price of our stock.

New legislation may impact our financial position or results of operations.

Compliance with changing regulations concerning corporate governance and public disclosure has resulted in and may continue to result in additional expenses. Changing laws, regulations and standards relating to corporate governance and public disclosure, including the Sarbanes-Oxley Act of 2002, new SEC regulations and The NASDAQ Stock Market rules, are creating uncertainty for companies such as ours and costs are increasing as a result of this uncertainty and other factors. We are committed to maintaining high standards of corporate governance and public disclosure. As a result, we intend to invest all reasonably necessary resources to comply with evolving standards, and this investment has and may continue to result in increased general and administrative expenses and a diversion of management time and attention from revenue-generating activities to compliance activities.

Currently a majority of our revenue is generated from customers located outside the United States, and a substantial portion of our assets, including employees, are located outside the United States. United States income taxes and foreign withholding taxes have not been provided on undistributed earnings of non-United States subsidiaries, because such earnings are intended to be indefinitely reinvested in the operations of those subsidiaries. President Obama's administration has recently announced initiatives that would substantially reduce our ability to defer U.S. taxes including: repeal deferral of U.S. taxation of foreign earnings, eliminate utilization or substantially reduce our ability to claim foreign tax credits, and eliminates various tax deductions until foreign earnings are repatriated to the United States. If any of these proposals are constituted into legislation, they could have a negative impact on our financial position and results of operations.

We may be subject to product liability lawsuits, and our insurance may be inadequate to cover damages.

Clinical trials of any of our current and potential products or the actual commercial sales of our product 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, if at all, 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 operations and cash flows could be adversely affected.

If we are unable to comply with environmental and other laws and regulations, our business may be harmed.

We are subject to various federal, state and local laws, regulations and recommendations relating to the use, manufacture, storage, handling and disposal of hazardous materials and waste products (including radioactive compounds and infectious disease agents), as well as safe working conditions, laboratory and manufacturing practices and the experimental use of animals. The extent of government regulation that might result from future legislation or administrative action in these areas cannot be accurately predicted.

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We do not currently maintain hazardous materials at our facilities. 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 environmental laws and regulations. Further, in the event of an accident, we would be liable for any damages that result, and the liability could exceed our resources.

We are at risk of securities class action litigation.

In the past, securities class action litigation has often been brought against a company following a decline in the market price of its securities. This risk is especially relevant for us because biotechnology companies have experienced greater than average stock price volatility in recent years. If we faced such litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.

Anti-takeover provisions in our charter documents and under Delaware law may make an acquisition of us, which may be beneficial to our stockholders, more difficult.

Certain anti-takeover provisions of Delaware law and our charter documents as currently in effect may make a change in control of our company more difficult, even if a change in control would be beneficial to our stockholders. Our charter documents contain certain anti-takeover provisions, including provisions in our certificate of incorporation providing that stockholders may not cumulate votes, stockholders' meetings may be called by stockholders only if they hold 25% or more of our common stock and provisions in our bylaws providing that the stockholders may not take action by written consent. Additionally, our board of directors has the authority to issue 10 million shares of preferred stock and to determine the terms of those shares of stock without any further action by the stockholders. The rights of holders of our common stock are subject to the rights of the holders of any preferred stock that may be issued. The issuance of preferred stock could make it more difficult for a third-party to acquire a majority of our outstanding voting stock. Delaware law also prohibits corporations from engaging in a business combination with any holders of 15% or more of their capital stock until the holder has held the stock for three years unless, among other possibilities, the board of directors approves the transaction. Our board of directors may use these provisions to prevent changes in the management and control of our company. Also, on December 18, 2006, our Board of Directors declared a dividend distribution of one Preferred Stock Purchase Right (collectively, the "Rights") for each outstanding share of our Common Stock, each Right which entitles the registered holder to purchase from the Company one one-thousandth of a share of the Company's Series D Preferred Stock, \$0.001 par value, at a price of \$25.00 pursuant to a Rights Agreement dated as of December 19, 2006, between the Company and Mellon Investor Services LLC. The Rights have certain anti-takeover effects. Under certain circumstances the Rights could cause substantial dilution to a person or group who attempts to acquire the Company on terms not approved by our Board of Directors. Although the Rights should not interfere with an acquisition of the Company approved by the Board, the Rights may have the effect of delaying and perhaps improving the terms of an acquisition for our stockholders, or deterring an acquisition of the Company. Also, under applicable Delaware law, our board of directors may adopt additional anti-takeover measures in the future.

Our business and operations are subject to the risks of being based in particular locations known for earthquakes, other natural catastrophic disasters and service interruptions.

Our corporate headquarters are located in the Silicon Valley area of Northern California, a region known for seismic activity. Although we maintain a disaster recovery policy that includes storage of important corporate data in a different geographic region of the United States, all of our significant corporate data is stored in our headquarters facility and accordingly, a significant natural disaster, such as an earthquake, could have a material adverse impact on our business, operating results, and financial condition. Most of our sales are into China for which we maintain a sole warehouse for finished goods in Hong Kong, which can experience severe typhoon storms. Although our distributors in China maintain several months supply of our product, were our warehouse capability to be interrupted, either through a natural disaster such as flooding or through a service interruption, such as a lack of electricity to power required air conditioning, our ability to timely deliver finished product to China could be adversely affected which in turn would materially adversely affect our sales and ensuing operating results.

We May Be Affected by Climate Change and Market or Regulatory Responses to Climate Change

Climate change, including the impact of global warming, could have a material adverse effect on our results of operations, financial condition, and liquidity if it were to disrupt the demand, supply or delivery of product, management of our business, or result in cost increases as a result of government regulation.

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

None.

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Item 3. Defaults Upon Senior Securities

None.

Item 4. Removed and Reserved

Item 5. Other Information

None

Item 6. Exhibits

<u>Exhibit Number</u>	<u>Description</u>
31.1 ⁽¹⁾	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2 ⁽¹⁾	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1 ⁽¹⁾	Section 1350 Certification of Chief Executive Officer.
32.2 ⁽¹⁾	Section 1350 Certification of Chief Financial Officer.

(1) Filed Herewith.

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INDEX TO EXHIBITS

<u>Exhibit Number</u>	<u>Exhibit</u>
31.1 ⁽¹⁾	Rule 13a-14(a) Certification of Chief Executive Officer.
31.2 ⁽¹⁾	Rule 13a-14(a) Certification of Chief Financial Officer.
32.1 ⁽¹⁾	Section 1350 Certification of Chief Executive Officer.
32.2 ⁽¹⁾	Section 1350 Certification of Chief Financial Officer.

(1) Filed Herewith.

RULE 13a-14(a) CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Friedhelm Blobel, Ph.D., certify that:

1. I have reviewed this quarterly report on Form 10-Q of SciClone Pharmaceuticals, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2010

/s/ Friedhelm Blobel, Ph.D.

Friedhelm Blobel, Ph.D.
Chief Executive Officer

RULE 13a-14(a) CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Gary S. Titus, certify that:

1. I have reviewed this quarterly report on Form 10-Q of SciClone Pharmaceuticals, Inc. (the "Registrant");
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. I am responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under my supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to me by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under my supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report my conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. I have disclosed, based on my most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 10, 2010

/s/ Gary S. Titus

Gary S. Titus

Senior Vice President, Finance and Chief Financial Officer
(Principal Financial Officer)

SECTION 1350 CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Friedhelm Blobel, Chief Executive Officer, of SciClone Pharmaceuticals, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

- (1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: May 10, 2010

/s/ Friedhelm Blobel, Ph.D.

Friedhelm Blobel, Ph.D.

Chief Executive Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to SciClone Pharmaceuticals, Inc. and will be retained by SciClone Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

SECTION 1350 CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Gary S. Titus, Senior Vice President, Finance and Chief Financial Officer, of SciClone Pharmaceuticals, Inc. (the "Registrant"), do hereby certify in accordance with 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, based on my knowledge:

(1) the Quarterly Report on Form 10-Q of the Registrant, to which this certification is attached as an exhibit (the "Report"), fully complies with the requirements of section 13(a) of the Securities Exchange Act of 1934 (15 U.S.C. 78m); and

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

Date: May 10, 2010

/s/ Gary S. Titus

Gary S. Titus

Senior Vice President, Finance and Chief Financial Officer

A signed original of this written statement required by Section 906, or other document authenticating, acknowledging, or otherwise adopting the signature that appears in typed form within the electronic version of this written statement required by Section 906, has been provided to SciClone Pharmaceuticals, Inc. and will be retained by SciClone Pharmaceuticals, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.