

SCICLONE PHARMACEUTICALS INC

FORM 10-K (Annual Report)

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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 1997,

OR

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

FOR THE TRANSITION PERIOD FROM _____ TO _____
COMMISSION FILE NUMBER 0-19825

SCICLONE PHARMACEUTICALS, INC.

(EXACT NAME OF REGISTRANT AS SPECIFIED IN ITS CHARTER)

CALIFORNIA
(STATE OR OTHER JURISDICTION OF
INCORPORATION OR ORGANIZATION)
901 MARINERS ISLAND BOULEVARD,
SAN MATEO, CALIFORNIA
(ADDRESS OF PRINCIPAL EXECUTIVE OFFICES)

94-3116852
(I.R.S. EMPLOYER
IDENTIFICATION NO.)

94404
(ZIP CODE)

(650) 358-3456

(REGISTRANT'S TELEPHONE NUMBER, INCLUDING AREA CODE)

SECURITIES REGISTERED PURSUANT TO SECTION 12(B) OF THE ACT:

NONE

SECURITIES REGISTERED PURSUANT TO SECTION 12(G) OF THE ACT:

COMMON STOCK, NO PAR VALUE

(TITLE OF CLASS)

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

The aggregate market value of the voting stock held by non-affiliates of the Registrant was approximately \$72,992,432 as of March 27, 1998, based upon the closing sale price of the Registrant's Common Stock on The Nasdaq National Market on such date. Shares of Common Stock held by each executive officer and director have been excluded from the calculation because such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of March 27, 1998, there were 17,348,108 shares of the Registrant's Common Stock outstanding.

Part III incorporates by reference from the definitive proxy statement for the registrant's 1997 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form.

NOTE REGARDING FORWARD-LOOKING STATEMENTS:

This Annual Report on Form 10-K for SciClone Pharmaceuticals, Inc. ("SciClone" or the "Company") contains forward-looking statements concerning, among other things, the Company's expected future revenues, operations and expenditures, estimates of the potential markets for the Company's products, assessments of competitors and potential competitors, projected timetables for the preclinical and clinical development, regulatory approval and market introduction of the Company's products and the Company's expectations regarding future financing and corporate partnering arrangements. These forward-looking statements represent the expectations of SciClone's management as of the filing date of this Form 10-K. The Company's actual results could differ materially from those anticipated by the forward-looking statements due to a number of factors, including (i) the Company's current reliance on a single product, ZADAXIN(R) thymosin alpha 1, for its revenues; (ii) the absence of regulatory approval for ZADAXIN in significant markets; (iii) risks associated with the manufacture and supply of ZADAXIN; (iv) the Company's ability to complete successfully preclinical and clinical development and obtain timely regulatory approval and patent and other proprietary rights protection for its products; (v) decisions and timing of decisions made by the U.S. Food and Drug Administration and other agencies regarding the indications for which the Company's products may be approved; (vi) market acceptance of the Company's products; (vii) the Company's ability to obtain reimbursement for its products from third-party payers, where appropriate; (viii) the accuracy of the Company's information concerning the products and resources of competitors and potential competitors; and the risks and uncertainties described in Part II under the captions "Factors That May Affect Future Operating Results" -- "Management's Discussion and Analysis of Financial Condition and Results of Operations."

PART I

ITEM 1. BUSINESS

INTRODUCTION

SciClone Pharmaceuticals, Inc. ("SciClone" or the "Company") is an international biopharmaceutical company that acquires, develops, and commercializes specialist-oriented proprietary drugs for treating chronic and life-threatening diseases, including hepatitis B, hepatitis C, cancer, immune system disorders and cystic fibrosis. SciClone has two drugs in clinical development, ZADAXIN(R) thymosin alpha 1 and CPX, and other drug candidates in preclinical development.

ZADAXIN, an immunomodulator (i.e., an immune system regulator), is the Company's lead drug, targeting hepatitis B, hepatitis C, cancer, vaccine enhancement and certain immune system disorders such as DiGeorge Anomaly. ZADAXIN is approved and marketed (over \$2.2 million in 1997 sales) in the People's Republic of China, the Philippines and Singapore for treatment of hepatitis B, one of the most common chronic infectious diseases in the world. In February 1998, ZADAXIN was approved in Argentina, a leading market in Latin America, for use as an influenza vaccine adjuvant and in Peru for treatment of hepatitis B. In March 1998, ZADAXIN was approved in Kuwait for the treatment of hepatitis B, the Company's sixth ZADAXIN market approval. ZADAXIN has now been approved in each of the three primary regions SciClone has targeted for hepatitis B sales -- Asia, Latin America and the Middle East. Collectively, these regions represent most of the potential hepatitis B markets worldwide. The Company has filed for approval to market ZADAXIN in 16 additional countries in Asia, Latin America and the Middle East. SciClone has worldwide marketing, development and manufacturing rights to ZADAXIN, except in Japan, Italy, Spain and Portugal, where the Company's rights have been sublicensed.

In the U.S. and Europe, the Company is developing combination ZADAXIN plus interferon for the treatment of hepatitis C, a worldwide epidemic affecting over 170 million worldwide including ten million people in the U.S., Europe and Japan, the world's largest pharmaceutical markets. Clinical data demonstrate that combination ZADAXIN plus interferon could be a significant therapeutic advance in the fight against hepatitis C. Interferon, the only approved therapy to treat hepatitis C, leads to a sustained response in only 5% to 20% of patients and causes unpleasant side effects. The Company is pursuing a corporate partnering

arrangement for the pivotal phase 3 development of combination ZADAXIN plus interferon for hepatitis C in the U.S. and Europe.

In Japan, the world's leading market for viral hepatitis therapies, the Company has licensed exclusive development and marketing rights to ZADAXIN to Schering-Plough K.K. ("SPKK"), the Japanese subsidiary of Schering-Plough Corporation, a leading marketer of viral hepatitis therapies worldwide. The Japanese Ministry of Public Health has approved SPKK's application to commence a Japanese pivotal phase 3 study of ZADAXIN monotherapy for hepatitis B. In Japan, interferon monotherapy, including SPKK's interferon, is the established first-line therapy for hepatitis B. In November 1997, SPKK commenced a phase 2 study of ZADAXIN monotherapy for hepatitis C, as required in Japan for approval of the drug for the treatment of hepatitis C. SPKK is also in the process of satisfying Japanese requirements to begin a clinical program to study the use of its interferon plus ZADAXIN as a combination therapy for hepatitis C.

CPX is SciClone's second drug in clinical development. CPX is an orally administered protein-repair therapy initially developed by the U.S. National Institutes of Health ("NIH") as a potential treatment for cystic fibrosis ("CF"). SciClone acquired an exclusive license to CPX from the NIH. CF is caused by mutations in the gene that encodes the cystic fibrosis transmembrane conductance regulator ("CFTR") protein. More than 70% of the CF patients have the delta F508 mutation, the most common cause of CF. In October 1997, Harvey Pollard, M.D., Ph.D, of the Uniformed Services University of the Health Sciences and formerly of the NIH, presented breakthrough new preclinical data demonstrating that CPX corrects the two key molecular defects causing CF -- impaired chloride ion transport and abnormal CFTR trafficking. These preclinical data indicate that CPX is the only drug in clinical development with the potential to correct the two key molecular defects in CF patients. The Company obtained orphan drug status for CPX from the United States Food and Drug Administration ("FDA") in April 1997. In October 1997, the FDA awarded SciClone a \$100,000 Orphan Drug Grant for phase 1 development of CPX as a treatment for CF. The Company recently completed dosing thirty-six (36) patients in its multicenter, single ascending oral dose phase 1 clinical study in the U.S. SciClone plans to start a multicenter, multiple-ascending oral dose phase 2 clinical trial in the U.S. in the third quarter of 1998. The Cystic Fibrosis Foundation ("CF Foundation") provided substantial financial support for early NIH research of CPX. The CF Foundation also supported SciClone in its Investigational New Drug ("IND") filing with the FDA to gain approval to begin the testing of CPX directly in CF patients rather than the standard process of testing first in healthy volunteers.

The Company has other drug candidates in early preclinical development. One of these drug candidates is in preclinical studies at the NIH and U.S. National Cancer Institute for epilepsy and multiple drug resistance in cancer, respectively. The Company plans to continue to evaluate activity of its preclinical drug candidates in 1998.

Internationally, SciClone has entered into ZADAXIN distribution arrangements covering 31 countries outside the U.S., Europe and Japan. The Company intends to out-license its products where a collaborative arrangement will materially enhance the prospects for a drug's commercial success in licensed markets, such as the Company's license with SPKK for exclusive rights to develop and market ZADAXIN in Japan and its arrangements with its ZADAXIN distributors. The Company is currently pursuing a corporate partnering arrangement in the U.S. and Europe for pivotal phase 3 development of combination ZADAXIN plus interferon for hepatitis C. The Company intends to source ZADAXIN, CPX and any future products through contract manufacturing and supply agreements. The Company has entered into separate supply agreements in the U.S. and Europe for the supply of bulk and finished product thymosin alpha

1. The Company currently contracts with a major U.S. pharmaceutical company for the supply of bulk CPX and another U.S. pharmaceutical manufacturer for finished product CPX.

STRATEGY

SciClone's corporate objective is to become a leader in the acquisition, development and commercialization of specialist-oriented drugs for treating chronic and life threatening diseases, such as hepatitis B, hepatitis C, cancer, immune system disorders and cystic fibrosis. The Company's strategy to achieve this objective is to apply its international drug development, regulatory affairs and sales and marketing expertise as follows:

Increase ZADAXIN Sales. In 1997, SciClone's lead product, ZADAXIN, achieved over \$2.2 million in first full-year commercial sales for hepatitis B. In 1998, the Company intends to expand its international sales and marketing capabilities and increase sales of ZADAXIN. Management forecasts solid growth potential for ZADAXIN in the Company's existing and anticipated markets.

In addition to its global sales and marketing capabilities, SciClone is equipped to manage clinical development and regulatory submissions worldwide. The Company plans to continue to expand these capabilities aggressively to commercialize ZADAXIN and new products in markets around the world. Management believes that this strategy will enable the Company to penetrate and perform in markets worldwide in an accelerated and profitable manner.

Expand Product Pipeline. The Company focuses its resources on drug development and commercialization, not early drug discovery. SciClone evaluates new compounds for acquisition or in-licensing from various sources, including government agencies, universities, and pharmaceutical and biotechnology companies. The Company seeks development stage compounds that are specialist-oriented, novel, patented or patentable and possess excellent safety profiles. Management believes that this will enable the Company to lower its expected time-to-market and development risk profile relative to competitors engaged in both drug discovery and drug development.

Leverage Key Third-Party Resources. The Company does not own or maintain any manufacturing facilities for finished products or raw materials. Instead, SciClone's manufacturing and quality assurance teams out-source these functions to third parties that supply bulk product and finished goods according to current Good Manufacturing Practices ("cGMP"). Management believes that this strategy will lower the Company's capital requirements and enable the Company to concentrate its resources on drug development and commercialization activities.

Enhance Product Portfolio Patent Protection. SciClone pursues a policy of obtaining patent protection both in the U.S. and in selected foreign countries for subject matter considered patentable and important to its business. SciClone regularly reviews and seeks to broaden the protection of its intellectual property and trade secrets by actively developing and expanding its patent filings for composition of matter, method of use and process patents. Management believes this strategy will enable the Company to further protect the increased use of its product portfolio.

PRODUCT DEVELOPMENT ACTIVITIES

The following table summarizes the Company's current significant product development activities:

PRODUCT	LOCATION	INDICATION/ APPLICATION	STATUS
ZADAXIN thymosin alpha 1	People's Republic of China	Hepatitis B and viral vaccine adjuvant	Marketed
	Philippines, Singapore	Hepatitis B	Marketed
	Kuwait, Peru	Hepatitis B	Approved Q1 1998
	Argentina	Influenza vaccine adjuvant	Approved Q1 1998
	Brazil, Brunei, Chile, Cyprus	Hepatitis B	Market Applications Filed
	Egypt, Hong Kong, India, Indonesia, Lebanon, Malaysia, Mexico, Myanmar, Nepal, Pakistan, Turkey, Venezuela		
	Taiwan	Hepatitis B	Completed phase 3
	Japan(3)	Hepatitis B	Completed phase 2
	U.S./Europe	Hepatitis C	Phase 3(1)
	Japan(2)	Hepatitis C	Phase 2
CPX	U.S.	Cystic Fibrosis	Phase 1(3)

(1) A successful, non-pivotal U.S. phase 3 study has been completed. Subsequent meetings have been held with the FDA, the United Kingdom Medicines Control Agency, the Netherlands Medicines Evaluation Board and the Denmark Medicines Agency. From these meetings, a protocol for pivotal phase 3 trials has been proposed and refined in a workshop with leading international hepatologists.

(2) Clinical trial conducted by SPKK.

(3) The Company recently completed dosing thirty-six (36) patients in its multi-center, multiple ascending oral dose phase 1 clinical study in the U.S. and is preparing to start its phase 2a study in early Q3.

ZADAXIN THYMOSIN ALPHA 1 (THYMALFASIN) FOR HEPATITIS B AND HEPATITIS C

ZADAXIN thymosin alpha 1 for injection is a naturally occurring 28 amino acid peptide that is produced by chemical synthesis for therapeutic use. ZADAXIN's common chemical name is thymosin alpha 1. Thymosin alpha 1's generic name in the U.S. is thymalfasin. The Company believes that ZADAXIN has significant immunomodulatory properties. Data demonstrate that ZADAXIN enhances multiple immune response parameters in a substantial number of patients. The drug appears to act on cells of the immune system that have been suppressed by infection or other causes. Additionally, ZADAXIN does not produce the side effects, particularly fever, chills, fatigue, nausea and depression, associated with other immunomodulatory agents, such as interferon. No significant ZADAXIN related side effects have been reported. Based on more than 70 clinical trials conducted to date, the Company believes that ZADAXIN, either alone or in combination with other therapies, especially interferon, may have application across a broad spectrum of diseases, including hepatitis B, hepatitis C, cancer and immune system diseases such as DiGeorge Anomaly.

Pursuant to its 1994 license agreement with Alpha 1 Biomedicals ("A1B"), the Company obtained worldwide marketing, development and manufacturing rights to thymosin alpha 1, with the exception of Italy, Spain and Portugal. In April 1997, SciClone entered into an agreement with A1B to administer the sublicense activities of A1B's licensee for Italy, Spain and Portugal. Under this 1997 agreement, the Company also

acquired control of A1B's patent portfolio for thymosin alpha 1. In December 1997, SciClone and A1B entered into an Asset Purchase Agreement (the "Agreement") pursuant to which the Company will acquire A1B's worldwide rights to thymosin alpha 1, including rights A1B licensed from Hoffmann-LaRoche, Inc. and F. Hoffmann-LaRoche AG. (collectively, "Roche"), and eliminated the Company's and the Company's current and future sublicensee's royalty obligations to A1B with respect to future sales of thymosin alpha 1. Pursuant to the Agreement, the Company agreed to issue up to 600,000 shares of common stock and loan A1B up to an aggregate amount of \$280,000 for the assets described above. The Agreement is subject to approval by A1B's stockholders at A1B's 1998 Annual Meeting of Stockholders and the Company's receipt of certain consents from Roche..

HEPATITIS B

Hepatitis B is one of the most common infectious diseases in the world. It is transmitted through blood transfusions, contaminated needles, sexual contact and from mother-to-child. In addition, a large number of people are infected by unknown means. The World Health Organization estimates that approximately 350 million individuals worldwide or 5% of the world's population are carriers of the virus. Among carriers of the hepatitis B virus, unfortunately most are unaware that they are infected or have minimal disease with no clinically evident symptoms. However, carriers of the hepatitis B virus have a 200-fold increased chance of developing primary liver cancer, the most common cancer in the world, and a significant number develop cirrhosis of the liver.

ZADAXIN has been approved in five countries as a safe and effective treatment for hepatitis B. When used alone or in combination with other immunodulatory agents such as interferon ZADAXIN has not caused any significant drug related side effects.

META ANALYSIS AND RANDOMIZED AND CONTROLLED ZADAXIN HEPATITIS B TRIALS

Meta analysis is the statistical pooling of data derived from two or more clinical trials. By using data from two or more studies, random effects are reduced and precision of estimates will increase as sample size increases. A valuable use of meta analysis is to assess the efficacy of a drug in the treatment of a particular disease across many studies. The Company commissioned a meta analysis of hepatitis B randomized and controlled trials of ZADAXIN. The meta analysis was performed by MetaWorks, Inc. of Boston, Massachusetts, and included A1B's two U.S. hepatitis B trials and the Company's Taiwan hepatitis B trial. A statistically significant benefit ($p=0.04$) was demonstrated in the meta analysis with a ZADAXIN overall response rate of 36% compared to 19% for the control group. The results also showed no indications of drug toxicity and no significant drug related side effects in any of the trials.

Interferon is an immunomodulatory protein that is produced commercially using recombinant DNA technology and other techniques. Interferon is approved for treatment of hepatitis B in the United States, Europe, Japan as well as in numerous countries in Asia, Latin America and the Middle East. Other agents under development, but not yet approved anywhere for the treatment of hepatitis B, include nucleoside analogs such as lamivudine and famciclovir. Unlike ZADAXIN, data reported in the October 1997 supplement to Hepatology show that lamivudine may be associated with fatal rebound viral hepatitis. Nucleoside analogs may suppress viral replication but seldom eradicate the virus. Viral replication resumes when nucleoside analogs are discontinued.

Set forth below is more detailed information regarding the commercial and clinical development status of ZADAXIN as a therapy for hepatitis B in certain key markets.

THE PEOPLE'S REPUBLIC OF CHINA. In January 1997, the Company launched ZADAXIN for the treatment of hepatitis B in The People's Republic of China. This product launch marked the first introduction of ZADAXIN by the Company anywhere in the world and the first introduction of an imported finished pharmaceutical for treatment of hepatitis B in this market since the interferons. The Chinese Ministry of Public Health (MOPH) approval was based on a regulatory package assembled from U.S. and European data in addition to a locally required controlled clinical trial to evaluate the efficacy of ZADAXIN for patients suffering from hepatitis B. Sales and distribution of ZADAXIN in The People's Republic of China are

managed by SciClone Pharmaceuticals International, Ltd. (SPIL) based in Hong Kong. SPIL focused its 1997 sales efforts on the following three population centers: the southern province of Guangdong, the capital city of Beijing, and Shanghai. In these three areas four local distribution teams are used to sell and place ZADAXIN on hospital formularies of Chinese city and provincial hospitals. The Company expects to expand into additional major population centers in the Chinese market in 1998.

JAPAN. In Japan, the world's largest market for viral hepatitis therapies, the Company has licensed exclusive ZADAXIN development and marketing rights to SPKK. SPKK has completed a phase 1 single and multiple dose safety and pharmacokinetics trial. SPKK has successfully completed a dose ranging phase 2 safety and efficacy trial involving approximately 60 patients. SPKK recently received government approval to commence a 300-patient pivotal phase 3 study in hepatitis B.

TAIWAN. The Company has submitted the Plant Master File required by Taiwanese law to allow the Company to file for registration in Taiwan. The Company expects to file for registration in Taiwan in the second quarter of 1998. The Company sponsored a multicenter, randomized and controlled ZADAXIN phase 3 hepatitis B trial in Taiwan. The audited results of this trial showed 37% of patients responded to ZADAXIN monotherapy, compared to 25% for the control patients. The Company believes this trial produced the best results of any randomized and controlled hepatitis B trial for any therapy in Taiwan. The results also showed no significant ZADAXIN related side effects, consistent with all prior ZADAXIN studies.

ASIA, LATIN AMERICA AND THE MIDDLE EAST. ZADAXIN has been approved in each of the three primary regions SciClone has targeted for hepatitis B sales -- Asia, Latin America and the Middle East. Collectively, these regions represent most of the potential hepatitis B markets worldwide. In February 1998, ZADAXIN was approved in Argentina, a leading market in Latin America, for use as a viral vaccine adjuvant and in Peru for treatment of hepatitis B. In March 1998, ZADAXIN was approved in Kuwait, the Company's first market in the Middle East, for the treatment of hepatitis B. SciClone has 16 ZADAXIN NDAs pending in Asia, Latin America and the Middle East and expects to file additional NDAs in these territories in 1998.

HEPATITIS C

Hepatitis C is a worldwide epidemic, infecting over 170 million people worldwide, including approximately 10 million in the U.S., Europe and Japan, the world's leading pharmaceutical markets. According to the Centers for Disease Control and Prevention, approximately 4 million Americans are infected with the hepatitis C virus. The American Liver Foundation (ALF) estimates that 170,000 new hepatitis C cases are reported each year in the U.S. and that up to 10,000 people in the U.S. die as a result of complications of hepatitis C each year. Without improved prevention and treatment, the ALF estimates that the death rate associated with hepatitis C will triple in the next 20 years. The prevalence of hepatitis C in Europe is similar to that in the U.S., approximately 4 million. An article in the Annals of Internal Medicine indicates that in Japan there are more than 1 million cases of hepatitis C. Hepatitis C can be transmitted wherever blood to blood contact occurs, especially by blood transfusions and contaminated needles. The mode of transmission in many cases is unknown. Approximately 10% to 20% of hepatitis C carriers may develop cirrhosis, and up to 40% of these individuals may develop liver cancer. Hepatitis C, accompanied by cirrhosis and liver failure, is the leading cause of liver transplantation in the U.S. Currently, interferon is the only therapy approved in major markets for hepatitis C. There is no approved vaccine to prevent hepatitis C.

POOLED AND META ANALYSES OF HEPATITIS C TRIALS

Although interferon has been shown to be safe and effective in the treatment of hepatitis C, dissatisfaction with the low sustained response rate (5% to 20%) to interferon monotherapy has led to the study of interferon combination therapies. Clinical data demonstrate that combination ZADAXIN plus interferon could be a significant therapeutic advance in the fight against hepatitis C. Three studies, published as full articles or abstracts, describe the response in patients with hepatitis C to combination ZADAXIN plus interferon. The strength of pooled analysis and meta analysis techniques was applied to the three studies. Patients were treated for 6 to 12 months with combination ZADAXIN plus interferon and followed for 6 months after treatment. Interferon-treated patients from the randomized controlled trials and historical

controls from an open label trial were used as controls. A total of 121 patients (67 ZADAXIN plus interferon combination therapy and 54 interferon monotherapy) were studied.

END OF TREATMENT BIOCHEMICAL AND VIROLOGICAL RESPONSE

Pooled intent-to-treat analysis revealed an end of treatment biochemical (ALT, a liver enzyme) response of 44.7% in the combination ZADAXIN plus interferon group compared to 22.2% in the interferon monotherapy group ($p = 0.0096$). Meta analysis demonstrated an end of treatment biochemical response odds ratio and 95% confidence interval of greater than 1 indicating that combination ZADAXIN plus interferon was significantly superior to interferon monotherapy. Meta analysis also showed an end of treatment virological response odds ratio and 95% confidence interval of indicating that combination ZADAXIN plus interferon was significantly superior to interferon monotherapy.

SUSTAINED BIOCHEMICAL AND VIROLOGICAL RESPONSE

Pooled intent-to-treat analysis revealed sustained biochemical (ALT) response of 22.3% in the combination ZADAXIN plus interferon group compared to 9.26% in the interferon monotherapy group ($p = 0.1$). Meta analysis demonstrated a sustained response odds ratio of greater than 1 and a 95% confidence interval slightly overlapping 1 indicating that combination ZADAXIN plus interferon was numerically superior to interferon monotherapy. These two sustained biochemical response analyses demonstrate a statistical trend in favor of the combination ZADAXIN plus interferon group and suggest that there is only a small chance that this difference occurred by chance alone. Meta analysis also showed sustained virological response odds ratio and 95% confidence interval of greater than 1 indicating that combination ZADAXIN plus interferon was significantly superior to interferon monotherapy.

There were no increased or new side effects in the combination ZADAXIN plus interferon group compared to patients treated with interferon monotherapy.

Set forth below is more detailed information regarding the development status of combination ZADAXIN plus interferon for treatment of hepatitis C, an emerging epidemic worldwide.

U.S. AND EUROPE. In the U.S. and Europe, the Company is developing combination ZADAXIN plus interferon for hepatitis C. After meeting with the FDA and regulatory authorities in the United Kingdom, the Netherlands and Denmark in the first half of 1997, the Company prepared a protocol outline for its pivotal phase 3 hepatitis C program. In late 1997, this protocol outline was refined by over 15 leading hepatologists. The Company is currently pursuing a corporate partnering arrangement for pivotal phase 3 development of combination ZADAXIN plus interferon for hepatitis C in the U.S. and Europe. Adrian Di Bisceglie, M.D., Associate Chairman of Medicine, Professor of Internal Medicine at Saint Louis University and Medical Director of the American Liver Foundation, has agreed to be the principal investigator for the Company's planned pivotal phase 3 hepatitis C program.

JAPAN. In Japan, SciClone has licensed exclusive development and marketing rights to ZADAXIN to SPKK. In November 1997, SPKK commenced a phase 2 study of ZADAXIN as a monotherapy for hepatitis C, as required for Japanese approval of ZADAXIN for the treatment of hepatitis C. SPKK also is working to satisfy requirements to begin a clinical program to study the use of its interferon plus ZADAXIN as a combination therapy for hepatitis C.

ASIA, LATIN AMERICA, MIDDLE EAST. The Company is working to expand its current approvals and pending NDAs to include use of combination ZADAXIN plus interferon to treat hepatitis C.

CYSTIC FIBROSIS.

Cystic fibrosis (CF) is the most common fatal genetic disorder in the U.S. today. Currently, there is no cure for the disease. CF affects approximately 70,000 children and young adults worldwide, including approximately 30,000 in the U.S. and approximately 30,000 in Europe. In the U.S., CF occurs in approximately one of every 3,300 live births and approximately 1,000 new cases are diagnosed each year, usually by the age of three. The median age of survival for a person with CF is 31 years. CF is caused by a mutated gene that produces an abnormal CFTR protein. This basic genetic defect in CF cells results in the faulty transport of chloride and sodium within epithelial cells (which line organs such as the lungs and pancreas) to the cells' outer surfaces. This faulty transport causes the body to produce abnormally thick, sticky mucus which clogs the lungs and leads to fatal infections. This mucus also obstructs the pancreas, preventing enzymes from reaching the intestines to digest food. Most CF patients die from lung disease. One in 29 Americans, more than 10 million people, is an unknowing, symptomless carrier of the defective gene. A child must inherit two defective copies of the CF gene, one from each parent, to have CF. Each time two carriers conceive a child, there is a 25% chance that the child will have CF, a 50% chance that the child will be a carrier, and a 25% chance that the child will be a non-carrier.

Currently, approved CF treatments only address the symptoms of the disease and not the two underlying molecular defects causing CF in most patients -- impaired chloride ion transport and abnormal CFTR trafficking. The treatment of CF depends upon the stage of the disease and which organs are involved. One means of treatment, postural drainage (also called chest physical therapy), requires vigorous percussion (by using cupped hands) on the back and chest to dislodge the thick, sticky mucus from the lungs. Antibiotics are also used to treat lung infections and are administered intravenously, orally and/or in medicated vapors which are inhaled to open up clogged airways. In addition, mucolytic (mucus-thinning) drugs are used to thin the viscosity of the mucus. When CF affects the digestive system, the body does not absorb enough nutrients. Therefore, people with CF may need to eat an enriched diet and take both replacement vitamins and enzymes. The annual average cost of care of a CF patient has been estimated by the CF Foundation to be approximately \$50,000 per patient.

CPX

CPX is an orally available xanthine derivative that is produced for therapeutic use through chemical synthesis. CPX targets the underlying biochemical abnormality at the root cause of CF, the malfunctioning CFTR protein that results in the buildup of thick, sticky mucus. CPX use in CF was discovered by Harvey Pollard, M.D., Ph.D., and Kenneth Jacobson, Ph.D., while at the National Institute of Diabetes and Digestive and Kidney Disorders (NIDDK) of the NIH. In October 1997, Dr. Pollard presented new breakthrough preclinical data demonstrating that CPX corrects the two key molecular defects causing CF -- impaired chloride ion transport and abnormal CFTR trafficking. Trafficking refers to the ability of the CFTR protein to traverse the cell cytoplasm and reach the proper location on the cell membrane. These preclinical data indicate that CPX is the only drug in clinical development with the potential to correct the two molecular defects in CF patients.

Consistent with the Company's strategy to expand its product portfolio, SciClone licensed CPX from the NIH in April 1996. In January 1997, the Company's IND was approved by the FDA to begin clinical studies of CPX in the U.S. directly in CF patients rather than healthy volunteers. The CF Foundation provided substantial financial support in the NIH's early CPX research and has supported SciClone in its IND filing with the FDA to gain approval to begin testing of CPX directly in patients. In April 1997, the Company obtained orphan drug status for CPX from the FDA. In May 1997, the Company initiated a multicenter phase 1 trial of CPX directly in CF patients. In October 1997, the FDA awarded SciClone a \$100,000 Orphan Drug Grant for phase 1 development of CPX as a treatment for CF.

U.S. MULTICENTER PHASE 1 CPX TRIAL IN CF PATIENTS

The Company recently completed dosing thirty-six (36) patients in its multicenter phase 1 clinical study of CPX. The five participating CF centers were: University of Washington and Children's Hospital CF Center in Seattle, Washington; University of Iowa Hospitals and Clinics CF Center in Iowa City, Iowa; The LeRoy

Matthews CF Center, Rainbow Babies and Children's Hospital in Cleveland, Ohio; The Emory University CF Center, Egleston Children's Hospital in Atlanta, Georgia; and Stanford CF Center, and Lucille Packard Children's Hospital in Palo Alto, California. The primary objectives of the study were to evaluate the safety and pharmacokinetic profile of CPX. SciClone plans to start a multicenter, multiple-ascending oral dose phase 2 clinical trial in the U.S. in the third quarter of 1998.

MARKETING AND SALES

In general, the Company plans to market and sell its products in the U.S. by establishing its own marketing and sales organization. Outside the U.S., the Company markets and sells its products through collaborative or distribution arrangements.

In the U.S. and Europe, ZADAXIN is in late-stage clinical development. In the U.S. and Europe, SciClone is currently pursuing a corporate partnering arrangement with a major pharmaceutical company for the pivotal phase 3 development and commercialization of combination ZADAXIN plus interferon for the treatment of hepatitis C. In Japan, SciClone has licensed exclusive ZADAXIN development and marketing rights to SPKK.

SciClone's marketing and sales strategy for ZADAXIN in Asia (excluding Japan), Latin America and the Middle East, is to establish and expand its own proprietary regional sales and marketing capabilities to commercialize ZADAXIN. Consistent with this strategy, SciClone conducts medical education and clinical trial programs targeting the leading specialists (e.g. hepatologists) and teaching hospitals in each of its approved markets and markets in which the Company anticipates ZADAXIN approval on a near term or medium term basis. Distributors assist SciClone with local regulatory submissions to the ministries of health and are responsible for the importation, inventory, physical distribution and invoicing of ZADAXIN. SPIL is based in Hong Kong and has international offices in Japan, Philippines, Singapore and Taiwan. SPIL also manages a distribution center in Hong Kong which is the source for all ZADAXIN exported to the Company's non-U.S. markets, except Japan. SciClone has established distribution arrangements with local pharmaceutical distribution companies covering 31 countries outside of the U.S., Europe and Japan. In its three approved ZADAXIN markets in Asia (China, the Philippines and Singapore) and its three recently approved markets in Latin America (Argentina and Peru) and the Middle East (Kuwait), SciClone has established ZADAXIN marketing programs including the positioning and pricing of the drug. Local ZADAXIN sales in the Company's approved markets are or will be managed by SciClone employees utilizing dedicated distributor employees nominated and supported by SciClone.

In the U.S., CPX is in clinical development. Currently, the Company plans to market and sell CPX in the U.S. through the establishment of its own marketing and sales organization. In other markets, the Company is evaluating alternative plans for marketing and selling CPX.

MANUFACTURING

The Company has entered into contract manufacturing and supply agreements to source ZADAXIN and CPX.

To supply markets in Asia (except Japan), Europe, Latin America and the Middle East, SciClone has a European cGMP third-party source for bulk thymosin alpha 1. This bulk supply is turned into finished sterile injectable product by a separate European cGMP manufacturer. This finished product is shipped to Hong Kong for labeling and redistribution. To supply the U.S. and Japanese markets, the Company has contracted with a cGMP bulk manufacturer and a separate cGMP finishing plant, both in the U.S. SciClone has established an inventory of ZADAXIN sufficient to fulfill its expected commercial requirements in the near term.

CPX is manufactured for SciClone in the U.S. by a major U.S. pharmaceutical company and turned into finished form by a separate U.S. pharmaceutical manufacturer.

The Company directly monitors production runs of its products and maintains its own quality assurance audit program.

PATENTS AND PROPRIETARY RIGHTS

The Company is the exclusive licensee of composition of matter, process and use patents and pending applications related to thymosin alpha 1, in the U.S. and abroad.

The Company is the exclusive licensee (with limited exceptions) of foreign patents directed to the thymosin alpha 1 composition of matter which are owned by F. Hoffmann-La Roche AG and the Board of Regents of the University of Texas System. Many of these foreign composition of matter patents expired in 1997. However, the Company is the exclusive licensee of a number of composition of matter patents and applications directed to analogs and derivatives of thymosin alpha 1 and has and is seeking numerous other proprietary rights for thymosin alpha 1. The Company is the exclusive licensee and is directing prosecution of use and process patents related to the method of making and therapeutic uses of thymosin alpha 1. Consistent with its strategy, the Company also has filed and is the owner of use patents for thymosin alpha 1.

Process patents owned by A1B and exclusively licensed to SciClone are directed to methods of making thymosin alpha 1 and have issued in the U.S., a majority of European countries, Hong Kong and Taiwan.

SciClone also has exclusively licensed patents and pending applications covering numerous uses of thymosin alpha 1, including treatment of hepatitis C which has issued in a majority of European countries, Taiwan, Australia and South Africa. Patents under which SciClone is exclusively licensed have additionally issued in the U.S. and Australia covering the use of thymosin alpha 1 to treat small cell and non-small cell lung cancer; in the U.S., South Africa and Taiwan covering the use of thymosin alpha 1 to treat autoimmune hepatitis; in Japan covering the treatment of hepatitis B using thymosin alpha 1; in South Africa for the use of thymosin alpha 1 in treating hepatitis C in non-responders to interferon treatment; in the U.S., Taiwan and South Africa covering the use of thymosin alpha 1 to treat septic shock; in the U.S., Australia, Taiwan and South Africa covering the treatment of infertility in mammalian males using thymosin alpha 1; and in New Zealand covering the use of thymosin alpha 1 to treat decompensated liver disease. Patents which SciClone owns have issued in the U.S., Taiwan, Malaysia and South Africa covering the use of thymosin alpha 1 to treat hepatitis B carriers with minimal disease. Numerous corresponding additional patent applications in other countries are pending for each of the above named indications.

The Company is the exclusive licensee of an issued U.S. patent covering the use of CPX to treat CF, as well as other pending domestic and foreign patent applications covering CPX analogs and their use in treating CF.

In addition to patent protection, the Company intends to use other means to protect its proprietary rights. Certain marketing exclusivity periods may be available under regulatory provisions in certain countries including the U.S., European Union countries, Japan and Taiwan, which benefits the holder of the first marketing approval for new chemical entities or their equivalents for a given indication and the Company is pursuing such rights. Orphan drug protection has been or will be sought where available granting additional market exclusivity and the Company is pursuing such rights. The Company is the holder of an orphan drug product designation for thymosin alpha 1 for hepatitis B and DiGeorge Anomaly in the U.S. Recognition and protection of trademarks for thymosin alpha 1 is being accomplished through a worldwide filing of trademark applications for ZADAXIN and other trademarks which appear on the commercial packaging of the product and are used in promotional literature. Copyrights for the commercial packaging may provide SciClone with means to take advantage of procedures available in certain countries to exclude counterfeit products or genuine but unauthorized products from entering a particular country by parallel importation. The Company has also implemented anti-counterfeiting measures on commercial packaging and plans to register the packaging with customs departments in countries where such procedures exist.

The Company is pursuing similar types of protection for CPX, where applicable. The Company is the holder of an orphan drug product designation for CPX to treat CF in the U.S.

The Company also relies upon trade secrets, which it seeks to protect, in part, by confidentiality agreements with employees, consultants, suppliers and licensees. There can be no assurance that these agreements will not be breached, that SciClone would have adequate remedies for any breach or that SciClone's trade secrets will not otherwise become known or independently developed by competitors.

Upon the closing of the Asset Purchase Agreement with A1B, the Company will acquire A1B's worldwide patent rights to thymosin alpha 1 and will eliminate future royalties otherwise payable by it or its sublicensees to A1B. The Company will become the worldwide exclusive licensee of F. Hoffmann-LaRoche

AG and the Board of Regents of the University of Texas System and of the foreign patents directed to the thymosin alpha 1 composition of matter. The Company also will become the patentee (or owner) of all patents and applications worldwide currently solely owned by A1B upon closing of the Asset Purchase Agreement. These patents and applications are directed to processes of making the compound and analogs and derivatives of the thymosin alpha 1 composition of matter. Finally, on the closing, the Company will become a joint owner of all A1B's patents and applications directed to therapeutic uses of thymosin alpha 1, worldwide, where the Company is now the exclusive licensee of such patents and applications. The Company has agreed in its Asset Purchase Agreement to issue up to 600,000 shares of common stock and loan up to an aggregate amount of \$280,000 to A1B in exchange for the assets described above.

SPONSORED RESEARCH AND DEVELOPMENT

For the years ended December 31, 1997, 1996 and 1995, the Company expended \$8,642,000, \$9,904,000 and \$10,386,000, respectively, in Company sponsored research and development activities.

COMPETITION

Competition in the pharmaceutical field is intense and the Company expects that competition will increase. The Company's competitors include major pharmaceutical companies, biotechnology firms and universities and other research institutions, both in the U.S. and abroad, that are actively engaged in research and development of products in the therapeutic areas being pursued by the Company. Many of these companies and institutions have substantially greater financial, technical, manufacturing, marketing and human resource capabilities than the Company and extensive experience in undertaking clinical testing and obtaining regulatory approvals necessary to market drugs. Principal competitive factors in the pharmaceutical field include efficacy, safety, and therapeutic regimen. Where comparable products are marketed by other companies price is also a competitive factor. The Company intends to use alpha interferon as a reference drug in establishing pricing for ZADAXIN, although this may change over time.

GOVERNMENT REGULATION

Regulation by governmental authorities in the U.S. and foreign countries is a significant factor in the manufacturing of products for the Company and the marketing of products by the Company, in ongoing research and development activities and in preclinical and clinical trials and testing related to the Company's products. If the Company's products are manufactured, tested or sold in the U.S., they will be regulated in accordance with the Federal Food, Drug and Cosmetic Act ("FFD&C Act"). The standard process required by the FDA before a pharmaceutical agent may be marketed in the U.S. includes (i) preclinical laboratory and animal tests, (ii) submission to the FDA of an application for an investigational new drug exemption ("IND"), which must become effective before human clinical trials may commence, (iii) adequate well-controlled human clinical trials to establish the safety and efficacy of the product for its intended indication, (iv) submission to the FDA of a New Drug Application ("NDA") with respect to drugs, and (v) FDA approval of the NDA prior to any commercial marketing, sale or shipment of the drug. In addition to obtaining FDA approval for each product, each domestic manufacturing establishment must be registered with the FDA. Domestic manufacturing establishments are subject to inspections by the FDA and by other federal, state and local agencies and must comply with current United States Good Manufacturing Practices ("cGMP").

In the U.S., clinical trial programs generally involve a three-phase process. Typically, phase 1 pharmacology trials are conducted in a small number of healthy volunteers to determine the toxicity, pharmacological effects, metabolism and dose range requirements for the drug. Phase 2 trials are conducted with groups of patients afflicted with the target disease to make a preliminary determination of efficacy and optimal dosages and to provide additional evidence of safety. In phase 3, large-scale, multi-center comparative trials are conducted in patients afflicted with the target disease to provide sufficient data for the statistical proof of efficacy and safety required by the FDA and other regulatory agencies. The results of the preclinical and clinical testing are submitted to the FDA in the form of an NDA or PLA for approval to commence commercial sales. In responding to an NDA, the FDA may grant marketing approval or deny the application if

the FDA determines that the application does not satisfy its regulatory approval criteria. In approving an NDA, the FDA may require further post-marketing studies, referred to as phase 4 studies. When used in this Report in connection with trials and filings in other countries, terms such as "phase 1," "phase 2," "phase 3," "phase 4" and "new drug application" refer to what the Company believes are comparable trials and filings in such other countries.

Congress recently amended the FFD&C Act to facilitate and expedite the development and review of drugs intended for treatment of serious or life-threatening conditions that demonstrate the potential to address unmet medical needs for such conditions. These provisions, which combine existing FDA expedited approval and accelerated approval procedures, set forth a new procedure for designation of a drug as a "fast track product." Concurrent with or after an IND is filed, the sponsor may request designation as a fast track product, which must be responded to by the FDA within 60 calendar days.

If designated fast track, the FDA must take such actions as are appropriate to expedite the development and review of applications for these products. Another advantage of fast track designation is that sponsors may submit, and the FDA may commence review of, portions of an application before the complete application is submitted, provided that a schedule for submission of the completed application is provided. Sponsors of fast track products also may seek and obtain FDA approval based upon a determination that the product has an effect on a clinical endpoint or on a surrogate endpoint that is reasonably likely to predict clinical benefit. Products approved on such basis are subject to rigorous postmarket compliance requirements. For example, the sponsor may be required to conduct post-approval studies to validate or confirm the endpoint and/or may be required to submit copies of all promotional materials 30 days prior to their dissemination. The FDA may withdraw approval of fast track products if, for example, the sponsor fails to conduct required post-approval studies or disseminates false or misleading promotional materials.

Even after initial FDA approval has been obtained, further studies, including post-marketing studies, may be required to provide additional data on safety and will be required to gain approval for the use of a product as a treatment for clinical indications other than those for which the product was initially tested. Also, the FDA will require post-marketing reporting to monitor the side effects of the drug. Results of post-marketing programs may limit or expand the further marketing of the products. Further, if there are any modifications to the drug, including changes in indication, labeling, or a change in manufacturing facility, an NDA supplement may be required to be submitted to the FDA. Pursuant to recent amendments to the FFD&C Act, once regulations are implemented, certain manufacturing changes will not require submission of a supplement.

The orphan drug provisions of the FFD&C Act provide incentives to drug manufacturers to develop and manufacture drugs for the treatment of rare diseases, currently defined as diseases that affect fewer than 200,000 individuals in the U.S. or, for a disease that affects more than 200,000 individuals in the U.S., where the sponsor does not realistically anticipate its product becoming profitable. Under these provisions, a manufacturer of a designated orphan product can seek tax benefits, and the holder of the first FDA approval of a designated orphan product will be granted a seven year period of marketing exclusivity for that product for the orphan indication. While the marketing exclusivity of an orphan drug would prevent other sponsors from obtaining approval of the same compound for the same indication, it would not prevent other types of drugs from being approved for the same use. SciClone has been granted orphan designation by the FDA for CPX for cystic fibrosis and for thymosin alpha 1 for hepatitis B and DiGeorge Anomaly. In prior years, legislation was introduced in the U.S. Congress that would restrict the duration of the market exclusivity of an orphan drug. There can be no assurances that this type of legislation will not be reintroduced and passed into law, or that the benefits of the existing statute will remain in effect.

Under the Drug Price Competition and Patent Term Restoration Act of 1984 ("DPCPTRA"), a sponsor may be granted marketing exclusivity for a period of time following FDA approval of certain drug applications, regardless of patent status, if the drug is a new chemical entity or new clinical studies were used to support the marketing application. This marketing exclusivity would prevent a third party from obtaining FDA approval for a similar or identical drug through an Abbreviated New Drug Application ("ANDA"), which is the application form typically used by manufacturers seeking approval of a generic drug. The statute also allows a patent owner to extend the term of the patent for a period equal to one-half the period of time elapsed between

the filing of an IND and the filing of the corresponding NDA plus the period of time between the filing of the NDA and FDA approval with the maximum patent extension term being five years. Once a drug is granted some form of marketing exclusivity, the recently enacted FDA Modernization Act provides an additional six months of marketing exclusivity for certain pediatric research conducted at the written request of FDA.

The Company may seek the benefits of orphan, DPCPTRA, or fast track provisions, but there can be no assurance that the Company will be able to obtain any such benefits.

The Company is subject to foreign regulations governing human clinical trials and pharmaceutical sales. The requirements governing the conduct of clinical trials, product licensing, pricing and reimbursement vary widely from country to country. Whether or not FDA approval has been obtained, approval of a product by the comparable regulatory authorities of foreign countries is required prior to the commencement of marketing of the Company's products in those countries. The approval process varies from country to country and the time required for approval may be longer or shorter than that required for FDA approval. In general, foreign countries use one of three forms of regulatory approval process. In one form, local clinical trials must be undertaken and the data must be compiled and submitted for review and approval. In Japan, for example, the process is time-consuming and costly because all clinical trials and most preclinical studies must be conducted in Japan. A second form of approval process requires clinical trial submissions, but permits use of foreign clinical trials and typically also requires some form of local trial as well. A third form of approval process does not require local clinical trials, but rather contemplates submission of an application including proof of approval by countries that have clinical trial review procedures. Thus, a prior approval in one or more of the U.S., Japan, most European countries or Australia, among others, is often sufficient for approval in countries using this third form of approval process.

In addition to required foreign approvals, the FDA regulates the export of drugs or bulk pharmaceuticals from the U.S. In general, a drug that has been approved for commercial sale in the U.S. may be exported for commercial sale. In 1996, export reform legislation was passed in the U.S. that provides that an unapproved drug may be exported to a "listed country" for investigational purposes without FDA authorization. The listed countries are Australia, Canada, Israel, Japan, New Zealand, Switzerland, South Africa, and countries in the European Union and the European Economic Area. Export of drugs to an unlisted country for clinical trial purposes continues to require FDA approval. The Company has obtained, where necessary, FDA approval for all exports of ZADAXIN from the U.S. to date for clinical trial purposes, and will seek to obtain FDA approval, where necessary, for any future shipments from the U.S. to any unlisted country. The export reform legislation further provides that an unapproved drug can be exported to any country for commercial purposes without prior FDA approval, provided that the drug: (i) complies with the laws of that country; and (ii) has valid marketing authorization or the equivalent from the appropriate authority in a "listed country." Export of drugs not approved in the U.S. that do not have marketing authorization in a listed country continue to require FDA export approval.

Pursuant to the Prescription Drug User Fee Act of 1992, drug manufacturers generally are required to pay three types of user fees: (1) a one-time application fee for approval of an NDA; (2) an annual product fee imposed on prescription drugs after FDA approval; and (3) an annual establishment fee imposed on facilities used to manufacture prescription drugs. The fee rates for 1998 are: (1) \$256,846 one-time fee for an application requiring clinical data, or \$128,423 fee for an application not requiring clinical data; (2) \$141,966 annual establishment fee; and (3) \$18,591 annual product fee. These fee amounts are likely to increase in the future. Fee waivers or reductions are available in certain instances, including a waiver of the application fee for the first application filed by a small business. Additionally, no user fees are assessed on NDAs for products designated as orphan drugs, unless such drug also includes a non-orphan indication.

Among the conditions for NDA approval in the U.S. is the requirement that the prospective manufacturer's quality control and manufacturing procedures conform to cGMP. In complying with standards set forth in these regulations, manufacturers must continue to expend time, money and effort in the area of production and quality control to ensure full technical compliance.

The Company is also subject to various federal, state and local laws, regulations and recommendations relating to safe working conditions, laboratory and manufacturing practices, the experimental use of animals

and the use and disposal of hazardous or potentially hazardous substances, including radioactive compounds and infectious disease agents, used in connection with research work and preclinical and clinical trials and testing. The extent of government regulation which might result from future legislation or administrative action in these areas cannot be accurately predicted.

As the preceding discussion indicates, the research, preclinical development, clinical development, manufacturing, marketing and sales of pharmaceuticals, including ZADAXIN and CPX, are subject to extensive regulation by governmental authorities. Products developed by the Company cannot be marketed commercially in any jurisdiction in which they have not been approved. The process of obtaining regulatory approvals is lengthy, uncertain and requires the expenditure of substantial resources. For example, in some countries where the Company contemplates marketing ZADAXIN, the regulatory approval process for drugs not previously approved in countries that have established clinical trial review procedures is uncertain and this uncertainty may result in delays in granting regulatory approvals. In addition, in certain countries such as Japan, the process for obtaining regulatory approval is time consuming and costly because all clinical trials and most preclinical studies must be conducted in that country. The Company is currently pursuing regulatory approvals of ZADAXIN in a number of countries, and of CPX in the U.S., but there can be no assurance that the Company will ultimately obtain approvals in such countries in a timely and cost-effective manner or at all. The marketing approval for ZADAXIN in Singapore requires a post marketing surveillance program to continue study of the drug's safety and efficacy. Failure to comply with applicable U.S. or foreign regulatory requirements can, among other things, result in Warning Letters, fines, suspensions of regulatory approvals, product recalls or seizures, operating restrictions, injunctions and criminal prosecutions. Further, additional government regulation may be established or imposed by legislation or otherwise which could prevent or delay regulatory approval of ZADAXIN, CPX or any future products of the Company. Adverse events related to the Company's products in any of the Company's existing or future markets could cause regulatory authorities to withdraw market approval for such products, if any, or prevent the Company from receiving market approval in the future.

THIRD PARTY REIMBURSEMENT

The Company's ability to successfully commercialize its products may depend in part on the extent to which coverage and reimbursement for such products will be available from government health care programs, private health insurers and other third party payors or organizations. Significant uncertainty exists as to the reimbursement status of new therapeutic products and there can be no assurance that third party insurance coverage and reimbursement will be available for therapeutic products the Company might develop. In many of the foreign countries in which the Company intends to market ZADAXIN, reimbursement of ZADAXIN under government or private health insurance programs will not be available. In the U.S., health care reform is an area of increasing national attention and a priority of many governmental officials. Recent legislation, for example, imposes limitations on the amount of reimbursement available for specific drug products under some governmental health care programs. There can be no assurance that future additional limitations will not be imposed in the future on drug coverage and reimbursement.

EMPLOYEES

As of December 31, 1997, the Company had 35 employees, 24 in the U.S. and 11 abroad. The Company considers its relations with its employees to be satisfactory.

RECENT DEVELOPMENTS

On April 1, 1998, the Company issued 661,157 shares of convertible preferred stock (the "Series C Preferred Stock") to three institutional investors (each an "Investor" and collectively, the "Investors") at a purchase price (the "Purchase Price") of \$6.05 per share (the "Sale"). The Company has agreed to use its best efforts to cause a registration statement to become effective with respect to the resale of the common stock issuable upon conversion of the Series C Preferred Stock within 90 days of the closing date of the Sale (the "Closing Date"). The Purchase Price was equal to 160% of the average closing bid price for the common stock of the Company (the "Common Stock") for the five trading days prior to the Closing Date.

Generally, the Series C Preferred Stock is not convertible until 90 days from the closing and is then subject to limitations summarized below. The conversion price for the Series C Preferred Stock is the lesser of (a) \$6.05, or (b) the average closing bid price of the Common Stock on any three (3) consecutive trading days selected by an Investor out of the twenty-two (22) trading days immediately prior to the date the Investor delivers a notice of conversion (the "Market Conversion Price"). However, the Market Conversion Price can never be less than \$3.78 except as described below. The Investors may convert fifty percent (50%) of their Series C Preferred Stock into Common Stock at the Market Conversion Price between the 91st and 180th day following the Closing Date, and the Investors may convert one hundred percent (100%) of their Series C Preferred Stock at the Market Conversion Price from and after the 181st day following the Closing Date. Whenever the Market Conversion Price of the Series C Preferred Stock is more than \$6.05, the Investors may convert all of their then outstanding Series C Preferred Stock at the Market Conversion Price.

If between ninety (90) and three hundred sixty-five (365) days after the Closing Date, the closing bid price of the Common Stock is less than \$3.78 on any three (3) consecutive trading days, the Company has the option to (a) allow any of the shares of Series C Preferred Stock which are then convertible to be converted at the Market Conversion Price or (b) redeem the shares of Series C Preferred Stock then eligible for conversion, if any. The Investors are not obligated to accept either option. However, these provisions will terminate immediately and automatically after the closing bid price of the Common Stock has exceeded \$6.00 for forty (40) consecutive trading days. At the end of such forty (40) day period or three hundred sixty-five (365) days after the Closing Date, whichever occurs first, the conversion price for the Series C Preferred Stock may never be less than \$3.78. Further, if at any time after the Closing Date the closing bid price of the Common Stock is less than \$1.50 for ten (10) consecutive trading days, the Company has the option to either (a) permit the Investors to convert any then remaining Series C Preferred Stock at the Market Conversion Price and without lock-up restrictions, or (b) redeem the then remaining Series C Preferred Stock, if any. The redemption price for any of the foregoing redemptions would be 110% of the original purchase price of the remaining shares of Series C Preferred Stock subject to redemption, if any.

Each Investor also received an option to purchase additional shares in the Sale. If the Market Conversion Price prior to the date Investor delivers notice of conversion is more than \$6.00 per share, the Investor has the right to purchase one additional share of the Common Stock for every share of the Common Stock received upon conversion of the Series C Preferred Stock. Such additional shares of the Common Stock purchased by an Investor will be priced at the Market Conversion Price, which price will never be less than \$6.00 per share.

The Investors also received warrants to purchase an aggregate of 100,000 shares of Common Stock at a price equal to \$5.67 per share. The warrants have a five (5) year term.

The Company also granted the Investors certain rights of first refusal and protective provisions in the event the Company sells shares at a lower price prior to conversion of the Series C Preferred Stock. Further, in order to ensure the Investors of the free tradability of their shares upon conversion, the Company is subject to penalties in certain events, including the failure of the Company to fulfill its obligation to file and keep effective a registration statement for the resale of the Common Stock by the Investors, or if trading of the Common Stock is suspended for a prolonged period.

ITEM 2. PROPERTIES

The Company has leased approximately 14,000 square feet of office space at its headquarters in San Mateo, California and limited office space for marketing purposes in Singapore, Hong Kong, Taiwan and Japan. The Company believes that its existing facilities are adequate for its current needs and that additional space will be available as needed.

ITEM 3. LEGAL PROCEEDINGS

As of the filing date of this Form 10-K, there are no material pending legal proceedings to which SciClone or any of its subsidiaries is a party or to which any of their property is subject.

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

Not Applicable.

PART II

ITEM 5. MARKET FOR THE REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER

MATTERS

The Company's Common Stock trades on The Nasdaq National Market under the symbol "SCLN."

The following table sets forth the high and low sale prices per share for the periods indicated, as reported by The Nasdaq National Market. The quotations shown represent inter-dealer prices without adjustment for retail markups, markdowns, or commissions, and may not necessarily reflect actual transactions.

	PRICE RANGE COMMON STOCK			
	HIGH		LOW	

1997				
4th quarter.....	\$ 7	11/32	\$ 2	15/16
3rd quarter.....	6	1/2	3	7/16
2nd quarter.....	7	15/32	4	3/8
1st quarter.....	16	1/8	4	3/4

1996				
4th quarter.....	\$13		\$ 7	3/4
3rd quarter.....	14	3/4	6	7/8
2nd quarter.....	15	1/8	11	1/4
1st quarter.....	16	1/8	4	3/4

As of March 15, 1998, there were approximately 250 holders of record and more than 5,000 beneficial holders of the Company's Common Stock.

The Company has not paid any dividends on its Common Stock and currently intends to retain any future earnings for use in its business.

ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data of the Company is qualified by reference to and should be read in conjunction with the consolidated financial statements and notes thereto included elsewhere in this Annual Report on Form 10-K.

	1997	1996	1995	1994	1993
STATEMENTS OF OPERATIONS DATA:					
Product sales.....	\$ 2,223,052	\$ 703,082	\$ 273,353	\$ --	\$ --
Cost of product sales.....	989,792	740,494	737,460	--	--
Gross margin.....	1,233,260	(37,412)	(464,107)	--	--
Operating expenses:					
Research and development.....	8,642,137	9,903,536	10,386,312	9,282,051	8,122,716
Special research and development charges.....	--	--	--	3,470,000	--
Marketing.....	4,144,499	4,240,208	4,323,327	4,375,447	1,771,985
General and administrative....	3,662,441	3,182,972	2,903,991	3,810,696	2,895,513
Total operating expenses.....	16,449,077	17,326,716	17,613,630	20,938,194	12,790,214
Loss from operations.....	(15,215,817)	(17,364,128)	(18,077,737)	(20,938,194)	(12,790,214)
Interest and investment income, net.....	1,218,812	2,618,381	3,302,307	3,056,869	1,111,183
Net loss.....	\$(13,997,005)	\$(14,745,747)	\$(14,775,430)	\$(17,881,325)	\$(11,679,131)
Basic net loss per share.....	\$ (0.85)	\$ (0.85)	\$ (0.88)	\$ (1.02)	\$ (0.89)
Weighted average shares used in computing basic net loss per share amounts.....	16,472,765	17,421,312	16,881,652	17,507,564	13,098,462
BALANCE SHEET DATA:					
Cash, cash equivalents and investments.....	\$ 12,900,465	\$ 35,105,708	\$ 47,389,827	\$ 63,670,287	\$ 284,254
Working capital.....	7,416,472	9,223,793	19,283,278	44,796,629	4,995,598
Total assets.....	19,195,505	42,727,687	54,150,795	67,012,993	48,095,931
Total shareholders' equity.....	15,723,657	37,465,628	49,555,262	62,754,031	45,520,246

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The Company is an international biopharmaceutical company that acquires, develops and commercializes specialist-oriented proprietary drugs for treating chronic and life-threatening diseases, including hepatitis B, hepatitis C, cancer, immune system disorders and cystic fibrosis. Currently, the Company has two drugs in clinical development, ZADAXIN for hepatitis B, hepatitis C, cancer and immune system disorders, and CPX for cystic fibrosis. The Company also has other drug candidates in preclinical development. To date, the Company's principal focus has been the development and commercialization of ZADAXIN and the development of CPX.

From commencement of operations through December 31, 1997, the Company incurred a cumulative net loss of approximately \$85.3 million. The Company expects its operating expenses to increase over the next several years as it expands its research and development, clinical testing and marketing capabilities. The Company's ability to achieve profitable operations is primarily dependent on increasing ZADAXIN sales in approved markets, securing regulatory approvals for ZADAXIN in additional countries and successfully launching ZADAXIN, if approved, in such countries. In addition, other factors may also impact the Company's ability to achieve a profitable level of operations such as spending associated with successful development of CPX, acquiring rights to additional drugs, and entering into and extending agreements for product development and commercialization, where appropriate. There can be no assurance that the Company will be able to attain these objectives or that the Company will ever achieve a profitable level of operations.

The Company's operating results may fluctuate from period to period as a result of, among other things, market acceptance of ZADAXIN, the timing and costs associated with preclinical and clinical development of the Company's products, the regulatory approval process, and the acquisition of additional product rights. The Company participates in a highly dynamic industry, which often results in significant volatility of the Company's common stock price. Setbacks in the launch, sale or distribution of ZADAXIN, preclinical and clinical development of the Company's products, the regulatory approval process or relationships with collaborative partners, and any shortfalls in revenue or earnings from levels expected by securities analysts, among other developments, have in the past had and could in the future have an immediate and significant adverse effect on the trading price of the Company's common stock in any given period.

RESULTS OF OPERATIONS

Product sales were approximately \$2,223,000, \$703,000 and \$273,000 for the years ended December 31, 1997, 1996 and 1995, respectively. Currently, the Company has received approval to market ZADAXIN in Argentina, Kuwait, the People's Republic of China, Peru, the Philippines and Singapore. For the year ended December 31, 1997, the first full-year of ZADAXIN sales, one customer in China accounted for 66% of the Company's product sales. The Company's accounts receivable collections in China are typically 180 days or longer. Such customer represents 86% of the accounts receivable balance at December 31, 1997. Such collections to date have been slower than anticipated and the Company is currently monitoring the situation. At the end of 1997, the Company has allowances for bad debts of \$250,000. If collection of outstanding accounts receivable does not improve, it may become necessary to further increase related allowances for bad debts. In addition, the Company has filed for approval to market ZADAXIN in several countries and anticipates additional filings in other countries. As a result, the Company expects product sales to increase in its existing approved markets in 1998 and beyond, upon the commencement of the commercial launch of ZADAXIN in additional markets once regulatory approvals are secured. The level of such product sales increase is dependent upon increased ZADAXIN market penetration in the Company's existing approved markets, additional ZADAXIN marketing approvals and the successful launch of ZADAXIN in new markets. Although the Company remains optimistic regarding the prospects of ZADAXIN, there can be no assurance that the Company will ever achieve significant levels of product sales or that the Company will receive additional ZADAXIN market approvals.

Cost of product sales was approximately \$990,000, \$740,000 and \$737,000 for the years ended December 31, 1997, 1996 and 1995, respectively. The increase is attributable to increased product sales. The Company expects cost of product sales to vary from quarter to quarter, dependent upon the level of product sales, the absorption of fixed product-related costs, and any charges associated with excess or expiring finished product.

Research and development expenses were approximately \$8,642,000, \$9,904,000, and \$10,386,000 for the years ended December 31, 1997, 1996, and 1995, respectively. For the year ended December 31, 1997, the decrease in research and development expenses as compared to 1996 was due to decreased professional fees partially offset by increased clinical trial expenses. Clinical trial expenses in 1997 were impacted by additional clinical trial expenses for the clinical development of CPX, a synthetic compound licensed in April 1996 from the NIH as a potential treatment for cystic fibrosis. In April 1997, the Company commenced its CPX clinical trial program in the U.S. In addition, the Company is pursuing a corporate partnering arrangement with a major pharmaceutical company for a pivotal phase 3 development of combination ZADAXIN plus interferon for hepatitis C in the U.S. and Europe. The initiation and continuation of these programs by the Company had and will continue to have a significant effect on the Company's research and development expenses in the future and will require the Company to seek additional capital resources. For the year ended December 31, 1996, the decrease in research and development expenses as compared to 1995 was primarily attributable to decreases in regulatory expenses and in costs associated with decreased ZADAXIN clinical trials, essentially due to the completion of the ZADAXIN Taiwan phase 3 Hepatitis B trial during the first half of 1996, offset by increased preclinical development expenses associated with CPX. In general, the Company expects product research and development expenses to increase over the next several years and to vary quarter to quarter as the Company pursues its strategy of initiating additional clinical trials and testing, entering into one or more corporate partnering arrangements, acquiring product rights, and expanding regulatory activities.

Marketing expenses were approximately \$4,144,000, \$4,240,000, and \$4,323,000 for the years ended December 31, 1997, 1996, and 1995, respectively. The decrease in 1997 as compared to 1996 is due to decreased professional services and travel expenses partially offset by increased publications and promotional material expenses associated with the launch of ZADAXIN in its approved markets. The decrease in 1996 as compared to 1995 is primarily attributable to decreased payroll costs related to an executive officer who left the Company in 1995, offset by increased professional services, primarily consulting services expenses, regarding preparations for the launch of ZADAXIN in its approved markets in early 1997. The Company expects marketing expenses to increase significantly in the next several quarters and years as it anticipates expanding its commercialization and marketing efforts and pursuing other strategic relationships.

General and administrative expenses were approximately \$3,662,000, \$3,183,000, and \$2,904,000 for the years ended December 31, 1997, 1996, and 1995, respectively. The increase in 1997 as compared to 1996 is due to increased general office expenses associated with increased rent and office relocation expenses and investment banking fees and fees for professional services, primarily legal and accounting fees, associated with the Company's adoption of a shareholder rights plan and proposed public offering. The increase in 1996 as compared to 1995 is primarily attributable to increased payroll costs offset by decreased expenses for professional services, primarily legal services and consulting fees. In the near term, the Company expects general and administrative expenses to vary quarter to quarter as the Company augments its general and administrative activities and resources to support increased expenditures on clinical trials and testing, and regulatory, pre-commercialization and marketing activities.

Net interest and investment income was approximately \$1,218,000, \$2,618,000, and \$3,302,000 for the years ended December 31, 1997, 1996, and 1995, respectively. The decrease in 1997 as compared to 1996 and in 1996 as compared to 1995 resulted from decreased interest and investment income due to lower average invested cash balances.

LIQUIDITY AND CAPITAL RESOURCES

In April 1998, the Company received \$4,000,000 (before deducting expenses) from the sale of 661,157 shares of Series C convertible preferred stock from a private placement. In March 1998, the Company also received approximately \$754,000 from one of its executive officers as a partial payment of an outstanding loan. (See "Note 1" -- "Notes Receivable from Officers").

In July 1997, the Company loaned Thomas E. Moore, former Chairman and one of the founders of the Company, \$5.944 million secured by approximately 1.9 million shares of SciClone common stock owned by Mr. Moore. The loan carries interest at 7%. During the period Mr. Moore's loan is outstanding and

immediately prior to the closing of any offering of the Company's common stock, the Company may convert the loan, in a non-cash exchange into Mr. Moore's SciClone common stock by retiring shares of his SciClone common stock at a fixed discount rate from the offering price. To date, the Company has not retired any of Mr. Moore's SciClone common stock. In connection with this transaction, Mr. Moore resigned from the Company. On December 31, 1997, the principal balance of the loan was \$5.944 million and was classified as an offset to shareholders' equity.

At December 31, 1997, and 1996, the Company had approximately \$12,900,000, and \$35,106,000, respectively, in cash, cash equivalents and marketable securities. The marketable securities consist primarily of highly liquid short-term and long-term investments.

Net cash used by the Company in operating activities amounted to approximately \$14,056,000, \$14,641,000, and \$17,098,000, for the years ended December 31, 1997, 1996, and 1995, respectively. Net cash used in operating activities for the year ended December 31, 1997 is greater than the Company's net loss for such period primarily due to increases in accounts receivable associated with sales from the Company's launch of ZADAXIN in its approved markets and increases in payments to third parties for goods and services and to employees for compensation and benefits. These amounts were partially offset by non-cash charges associated with depreciation and amortization, decreases in prepayments of certain future expenses, and increases in amounts owed to third parties for clinical trials. Net cash used in operating activities for the year ended December 31, 1996 is less than the Company's net loss for such period primarily due to non-cash charges associated with depreciation of furniture and equipment and amortization of deferred compensation in addition to increases in amounts owed to third parties for goods and services. These amounts were partially offset by cash used for inventory purchases, increases in and prepayments of certain future period expenses and payments of amounts owed to third parties related to clinical trial expenses and compensation and benefits. Net cash used in operating activities for the year ended December 31, 1995 was greater than the Company's net loss for such period primarily due to cash used for inventory purchases, the prepayment of certain future period expenses and increases in accounts receivable. These cash uses were partially offset by increases in amounts owed to third parties for goods and services related to clinical trial expenses in addition to noncash charges associated with depreciation and amortization.

Net cash provided by investing activities for the year ended December 31, 1997 primarily related to the net sale of approximately \$21,335,000 in marketable securities offset by the purchase of approximately \$404,000 in equipment and furniture. Net cash provided by investing activities for the year ended December 31, 1996 primarily related to the net sale of approximately \$12,319,000 in marketable securities offset by the purchase of approximately \$94,000 in equipment and furniture. Net cash provided by investing activities for the year ended December 31, 1995 primarily related to the net sale of approximately \$14,729,000 in marketable securities offset by the purchase of approximately \$204,000 in equipment and furniture.

Net cash used in financing activities for the year ended December 31, 1997 consisted of approximately \$4,267,000 related to Company's repurchase of its common stock under the Company's approved stock repurchase plan, the amounts loaned to Mr. Thomas E. Moore referred to above of \$5,944,000 offset by approximately \$2,313,000 in proceeds received from the issuance of common stock by the exercise of outstanding warrants and from the issuance of common stock under the Company's stock option plan and employee stock purchase plan. Net cash provided by financing activities for the year ended December 31, 1996 related to approximately \$3,731,000 in proceeds received from the issuance of common stock under the Company's stock option plan offset by approximately \$659,000 related to Company's repurchase of its common stock. Net cash used in financing activities for the year ended December 31, 1995 related to the Company's repurchase of approximately \$1,925,000 of its common stock offset by approximately \$192,000 in proceeds received from the issuance of common stock under the Company's stock option plan.

Management believes its existing capital resources and interest on funds available are adequate to maintain its current and planned operations through 1998. In December 1997, the Company filed a registration statement with the Securities and Exchange Commission with respect to a proposed registered direct placement of its Common Stock but decided not to proceed with such offering due to market conditions and other factors. The Company subsequently concluded an offering of convertible preferred stock with

proceeds of \$4,000,000 (before deducting expenses) and is actively pursuing additional financings including a private placement of common stock and an equity line. The Company believes it will conclude one or more of such additional financings in the next three to six months although no assurance can be given that such financing will occur in the time frame expected by the Company, on terms favorable to the Company, or at all. The Company is considering corporate partnering and other opportunities to increase its capital resources and if one or more of such other opportunities occurred, the Company would consider accelerating drug development activities, including clinical trials. The Company's capital requirements may change depending upon numerous factors, including the level of ZADAXIN product sales, the availability of complementary products, technologies and businesses, the initiation of preclinical and clinical trials and testing, the timing of regulatory approvals, developments in relationships with existing or future collaborative partners and the status of competitive products. The Company continues to pursue corporate partnering and public and private financing alternatives. If the Company cannot eventually generate sufficient funds from operations, it will need to raise additional financing in the near future. There can be no assurance that such financing will be available on acceptable terms and on a timely basis, if at all.

IMPACT OF THE YEAR 2000

As the year 2000 approaches, an issue impacting all companies has emerged regarding how existing application software programs and operating systems can accommodate this date value. In brief, many existing application software products in the marketplace were designed to accommodate only a two digit date position which represents the year (e.g., "95" is stored on the system and represents the year 1995). As a result, the year 1999 (i.e., "99") could be the maximum date value systems will be able to accurately process. Management is in the process of working with its software vendors to assure that the Company is prepared for the year 2000. Management does not anticipate that the Company will incur significant operating expenses or be required to invest heavily in computer system improvements to be year 2000 compliant.

FACTORS THAT MAY AFFECT FUTURE OPERATING RESULTS

Dependence on ZADAXIN and CPX. The Company's principal drug development efforts are currently focused primarily on ZADAXIN and CPX. Clinical trials of ZADAXIN sponsored by the Company and/or other parties are currently in progress or planned and favorable results from such trials will be necessary to gain regulatory approval in significant markets. Sales of ZADAXIN commenced in 1997 but are not material at this time. While ZADAXIN has been approved for commercial sale for treatment of hepatitis B in the People's Republic of China, Kuwait, Peru, the Philippines and Singapore, no assurance can be given that ZADAXIN approvals will be obtained in additional countries or for the treatment of additional indications, such as hepatitis C or cancer, in a timely fashion or at all. The Company's launch of ZADAXIN in the People's Republic of China, the Philippines and Singapore is the first commercial introduction of ZADAXIN by the Company, and no assurance can be given that commercialization of ZADAXIN will prove successful. The Company has not yet launched ZADAXIN in Argentina, Kuwait or Peru and no assurance can be given that future launch of ZADAXIN will prove successful. Future sales of ZADAXIN will depend on market acceptance and successful distribution. In particular, although the People's Republic of China has the highest hepatitis B prevalence rate in the world, the low average income and poorly developed distribution infrastructure present ongoing challenges to successful commercialization of ZADAXIN in that market. Because the Company currently relies on ZADAXIN as its sole source of revenue, the failure to demonstrate the drug's efficacy in future clinical trials, obtain additional marketing approvals or commercialize the drug successfully would have a material adverse effect on the Company.

The Company may experience delays and encounter difficulties in clinical trials of CPX. In addition, there can be no assurance that any clinical trial will provide statistically significant evidence of the efficacy of CPX in treating CF. A failure to demonstrate the efficacy of CPX in a CF clinical trial, obtain regulatory approval of CPX for CF or successfully commercialize CPX would have a material adverse effect on the Company.

No History of Significant Revenues; Continuing Operating Losses. The Company has only recently generated revenues from the commercialization of its products, and there is substantial uncertainty regarding the timing and amount of any future revenues and whether such future revenues will be material. The Company cannot predict when or if marketing approvals for CPX will be obtained or additional marketing approvals for ZADAXIN will be obtained. Even if such approvals are obtained, there can be no assurance that ZADAXIN and CPX will be commercialized successfully. The Company has experienced significant operating losses since its inception and, as of December 31, 1997, had an accumulated deficit of approximately \$85.3 million. The Company expects its operating expenses to increase over the next several years as it expands its development, clinical testing and marketing capabilities. The Company's ability to achieve a profitable level of operations is dependent in large part on successful expansion of the market for ZADAXIN in Asia, Latin America and the Middle East, obtaining additional regulatory approvals for ZADAXIN and/or future products, entering into a corporate partnering arrangement for pivotal phase 3 development of combination ZADAXIN plus interferon for hepatitis C in the U.S. and Europe, entering into other agreements for product development and commercialization, where appropriate, and continuing to expand from development into successful marketing. There can be no assurance that the Company will ever achieve a profitable level of operations.

Future Capital Needs; Uncertainty of Additional Financing. The Company will need additional financing to support its long-term product development and commercialization programs. The Company's future capital requirements will depend on many factors, including progress with preclinical testing and clinical trials, the time and cost involved in obtaining regulatory approvals, patent costs, competing technological and market developments, the nature of existing and future collaborative relationships, and the Company's ability to establish development, sales, manufacturing and marketing arrangements. No assurance can be given that adequate financing will be available to the Company on acceptable terms and on a timely basis, if at all.

Dependence on Third Parties. The Company's strategy contemplates that it will enter into various arrangements with other entities. To date, the Company has acquired rights to ZADAXIN, CPX and certain other drugs but is only actively pursuing clinical development of ZADAXIN and CPX. Failure to license or otherwise acquire rights to additional drugs would result in a shortage of products for development. In addition, the Company has licensed exclusive rights to develop and market ZADAXIN in Japan to SPKK. SPKK has a substantial commitment to alpha interferon, which is an approved therapy for hepatitis B and hepatitis C in Japan. There can be no assurance that the relationship will prove successful or that the Company will be able to negotiate additional arrangements in the future. The amount and timing of resources that collaborators devote to their activities with the Company will not be within the control of the Company and may be affected by financial difficulties or other factors affecting these third parties. There can be no assurance that such parties will perform their obligations as expected. Moreover, the Company's ability to obtain regulatory approval in one country may be delayed or adversely affected by the timing of regulatory activities and approvals in one or more other countries, particularly if the Company does not participate in the regulatory approval process in such other countries. See "Business -- Manufacturing" and "-- Marketing and Sales."

Foreign Sales and Operations. The Company's financial condition in the near term will be highly dependent on ZADAXIN sales in foreign jurisdictions, where sales and operations are subject to inherent risks, including difficulties and delays in obtaining pricing approvals and reimbursement, unexpected changes in regulatory requirements, tariffs and other barriers, political instability, difficulties in staffing and managing foreign operations, longer payment cycles, greater difficulty in accounts receivable collection, currency fluctuations and potential adverse tax consequences. Certain foreign countries regulate pricing of pharmaceuticals and such regulation may result in prices significantly below those that would prevail in a free market. The majority of the Company's current sales are to customers in the People's Republic of China where the Company's accounts receivable collections are typically 180 days or greater. Such collections to date have been slower than anticipated and the Company is currently monitoring the situation. If collection of outstanding accounts receivable does not continue to improve, it may become necessary to further increase the related allowances for bad debts or slow the rate of sales to this market.

Patents and Proprietary Rights. Most European composition of matter patents for thymosin alpha 1 expired in October 1997. The Company will in the future have only limited composition of matter patents for thymosin alpha 1 or other products and this could adversely affect the Company's proprietary rights. However, the Company owns or has exclusive licenses for use and process patents or patent applications in the U.S. and other jurisdictions for thymosin alpha 1 and CPX and will seek to protect such products from competition through such patent protection and through other means. See "Business -- Patents and Proprietary Rights." The Company's success is significantly dependent on its ability to obtain patent protection for its products and technologies and to preserve its trade secrets and operate without infringing on the proprietary rights of third parties. No assurance can be given that the Company's pending patent applications will result in the issuance of patents or that any patents will provide competitive advantages or will not be invalidated or circumvented by its competitors. Moreover, no assurance can be given that patents are not issued to, or patent applications have not been filed by, other companies which would have an adverse effect on the Company's ability to use, manufacture or market its products or maintain its competitive position with respect to its products. Numerous patents and patent applications relating to thymosin alpha 1 are held under exclusive license and the breach by the Company of the terms of such license could result in the loss of the Company's rights to such patents and patent applications. Other companies obtaining patents claiming products or processes useful to the Company may bring infringement actions against the Company and such litigation is typically costly and time-consuming. As a result, the Company may be required to obtain licenses from others or not be able to use, manufacture or market its products. Such licenses may not be available on commercially reasonable terms, if at all.

The patent positions of biotechnology firms generally are highly uncertain and involve complex legal and factual questions. No consistent policy has emerged regarding the validity and scope of claims in biotechnology patents, and courts have issued varying interpretations in the recent past, and legal standards concerning validity, scope and interpretations of claims in biotechnology patents may continue to evolve. Even issued patents may later be modified or revoked by the U.S. Patent and Trademark Office, the European Patent Office or the courts in proceedings instituted by third parties. Moreover, the issuance of a patent in one country does not assure the issuance of a patent with similar claims in another country and claim interpretation and infringement laws vary among countries, so the extent of any patent protection is uncertain and may vary in different countries.

Pharmaceuticals are not patentable in certain countries in SciClone's ZADAXIN territory, or have only recently become patentable, and enforcement of intellectual property rights in many countries in such territory has been limited or non-existent. Future enforcement of patents and proprietary rights in many countries in SciClone's ZADAXIN territory can be expected to be problematic or unpredictable. There can be no assurance that any patents issued or licensed to the Company will provide it with competitive advantages or will not be challenged by others. No assurance can be given that holders of patents licensed to the Company will file, prosecute, extend or maintain their patents in countries where the Company has rights. Furthermore, there can be no assurance that others will not independently develop similar products or will not design around patents issued or licensed to the Company.

Government Regulation and Product Approvals. The research, preclinical and clinical development, manufacturing, marketing and sales of pharmaceuticals, including ZADAXIN, CPX and the Company's other drug candidates, are subject to extensive regulation by governmental authorities. Products developed by the Company cannot be marketed commercially in any jurisdiction in which they have not been approved. The process of obtaining regulatory approvals is lengthy and requires the expenditure of substantial resources. In some countries where the Company contemplates marketing ZADAXIN, the regulatory approval process for drugs not previously approved in countries that have established clinical trial review procedures is uncertain and this uncertainty may result in delays in granting regulatory approvals. In addition, in certain countries such as Japan, the process for obtaining regulatory approval is time consuming and costly because all clinical trials and most preclinical studies must be conducted there. The Company is currently sponsoring clinical trials and pursuing regulatory approvals of ZADAXIN in a number of countries and of CPX in the U.S., but there can be no assurance that the Company will be able to complete such trials, that such trials, if completed, will fulfill regulatory approval criteria or that the Company will ultimately obtain approvals in such countries. Adverse

results in the Company's development programs also could result in the placement of restrictions on the use of ZADAXIN and CPX or revocation of the approval. The marketing approval for ZADAXIN in Singapore requires a patient surveillance program to continue study of the drug's safety and efficacy. Adverse results in such program could result in the placement of restrictions on the use of ZADAXIN or revocation of the approval in Singapore. Failure to comply with the applicable U.S. or foreign regulatory requirements can, among other things, result in Warning Letters, fines, suspensions of regulatory approvals, product recalls or seizures, operating restrictions, injunctions and criminal prosecutions. Further, additional government regulation may be established or imposed which could prevent or delay regulatory approval of ZADAXIN, CPX or any future products of the Company.

Manufacturing. The Company has entered into contract manufacturing and supply agreements to source ZADAXIN and CPX. The Company has experienced delays of supply of thymosin alpha 1 bulk drug in the past and could do so again in the future. To be successful, the Company's products must be manufactured in commercial quantities in compliance with regulatory requirements and at an acceptable cost. While the Company believes it has and will be able in the future to establish manufacturing relationships with experienced suppliers capable of meeting the Company's needs, there can be no assurance that the Company will establish long term manufacturing relationships with suppliers or that these suppliers will prove satisfactory. The Company currently has vialing and packaging supply agreements in effect and has a sufficient supply of finished thymosin alpha 1 for the near term and is currently negotiating a new vialing and packaging supply agreement. No assurances can be given that such new agreement will be reached. Production interruptions, if they occur, could significantly delay clinical development of potential products, reduce third party or clinical researcher interest and support of proposed clinical trials. Such interruptions could also delay commercialization of the Company's products and impair their competitive position, which would have a material adverse effect on the business and financial condition of the Company. See "Business -- Manufacturing."

Marketing and Sales. The Company has established distribution arrangements with local pharmaceutical distribution companies covering 31 countries, in Asia, Latin America and the Middle East. However, no assurance can be given that any such distribution arrangements will remain in place or prove successful. See "Business -- Marketing and Sales."

Technological Change and Competition. Rapid technological development may result in the Company's products becoming obsolete before they are marketed or before the Company recovers a significant portion of the related development and commercialization expenses. Competition in the pharmaceutical field is intense and the Company expects that competition will increase. The Company's competitors include major pharmaceutical companies, biotechnology firms and universities and other research institutions, both in the U.S. and abroad, that are actively engaged in research and development of products in the therapeutic areas being pursued by the Company. Many of these companies and institutions have substantially greater financial, technical, manufacturing, marketing and human resource capabilities than the Company and extensive experience in undertaking clinical testing and obtaining regulatory approvals necessary to market drugs. Principal competitive factors in the pharmaceutical field include efficacy, safety, and therapeutic regimen. Where comparable products are marketed by other companies price is also a competitive factor.

Uncertainty of Third Party Reimbursement; Resources of Patient Populations. The Company's ability to successfully commercialize its products may depend in part on the extent to which reimbursement for the cost of such products will be available from government health administration authorities, private health insurers and other organizations. Significant uncertainty exists as to the reimbursement status of new therapeutic products and there can be no assurance that third party reimbursement will be available for therapeutic products the Company might develop. In many of the foreign countries in which the Company intends to operate, reimbursement of ZADAXIN under government or private health insurance programs will not be available. In the U.S., health care reform is an area of increasing national attention and a priority of many governmental officials. Certain reform proposals, if adopted, could impose limitations on the prices the Company will be able to charge in the U.S. for its products or the amount of reimbursement for the Company's products from governmental agencies or third party payors. In many countries where the Company has marketing rights for ZADAXIN, government resources and per capita income levels may be so low that

the Company's products will be prohibitively expensive for a large percentage of the population. In such countries, there can be no assurance that the Company will be successful in marketing its products on economically favorable terms, if at all.

Dependence on Qualified Personnel and Key Individuals. Because of the specialized scientific nature of the Company's business, the Company is highly dependent upon its ability to continue to attract and retain qualified management, scientific and technical personnel. There is intense competition for qualified personnel in the areas of the Company's activities, and there can be no assurance that the Company will be able to continue to attract and retain the qualified personnel necessary for the development of its business. In addition, many key responsibilities within the Company have been assigned to a relatively small number of individuals. Loss of the services of any of these individuals unless they were promptly replaced could be significantly detrimental to the Company's development. The Company does not maintain key person life insurance on the lives of any of its key personnel.

Product Liability; Absence of Insurance. The Company's business will expose it to potential product liability risks which are inherent in the testing, manufacturing, marketing and sale of pharmaceutical products, and there can be no assurance that product liability claims will not be asserted against the Company. Product liability insurance for the pharmaceutical industry generally is expensive to the extent that it is available at all. The Company has product liability insurance coverage for clinical trials and commercial sales. However, there can be no assurance that a product liability claim would not adversely affect the business or financial condition of the Company.

Blank Check Preferred Stock. The Company recently issued shares of Series C Preferred Stock in a \$4,000,000 financing. (See "Business -- Recent Developments"). The Company's Board of Directors has the authority to issue additional series of preferred stock and to determine the price, rights, preferences, privileges and restrictions, including voting rights, without any further vote or action by the Company's shareholders. The rights of the holders of the Common Stock will be subject to, and may be adversely affected by, the rights of the holders of any Preferred Stock that may be issued in the future. The issuance of Preferred Stock, while providing desirable flexibility in connection with possible acquisitions and other corporate purposes, could have the effect of making it more difficult for a third party to acquire a majority of the outstanding voting stock of the Company.

Series C Preferred Stock. Under certain conditions, each share of the Company's outstanding Series C Preferred Stock may convert into more than one share of Common Stock. If such events were to occur, the conversion of the Preferred Stock could have a dilutive effect on the common shareholders. (See "Business -- Recent Developments.")

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SCICLONE PHARMACEUTICALS, INC.

**FINANCIAL STATEMENTS AT DECEMBER 31, 1997 AND 1996 AND FOR
EACH OF THE THREE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995.**

SCICLONE PHARMACEUTICALS, INC.

CONSOLIDATED BALANCE SHEETS

	DECEMBER 31, 1997	DECEMBER 31, 1996
	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 3,619,100	\$ 4,642,590
Short-term investments.....	3,866,007	5,205,529
Accounts receivable, net of allowances of \$250,000 in 1997 and \$7,000 in 1996.....	1,024,802	245,078
Inventory.....	2,046,218	2,608,877
Prepaid expenses and other current assets.....	332,193	1,783,778
	-----	-----
Total current assets.....	10,888,320	14,485,852
Property and equipment, net.....	525,077	299,405
Long-term investments.....	5,415,358	25,257,589
Notes receivable from officers.....	2,326,851	2,648,292
Other assets.....	39,899	36,549
	-----	-----
Total assets.....	\$ 19,195,505	\$ 42,727,687
	=====	=====
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable.....	\$ 562,730	\$ 639,392
Accrued compensation and employee benefits.....	758,955	817,774
Accrued clinical trials expense.....	1,210,164	964,331
Accrued professional fees.....	413,000	1,989,000
Other accrued expenses.....	526,999	851,562
	-----	-----
Total current liabilities.....	3,471,848	5,262,059
Commitments and contingencies (Note 7)		
Shareholders' equity:		
Preferred stock, no par value; 10,000,000 shares authorized; no shares issued and outstanding.....	--	--
Common stock, no par value; 75,000,000 shares authorized; 17,343,358 and 17,532,195 shares issued and outstanding.....	107,033,516	108,988,019
Note receivable from former officer.....	(5,944,000)	--
Net unrealized loss on available-for-sale securities.....	(17,588)	(171,125)
Accumulated deficit.....	(85,348,271)	(71,351,266)
	-----	-----
Total shareholders' equity.....	15,723,657	37,465,628
	-----	-----
Total liabilities and shareholders' equity.....	\$ 19,195,505	\$ 42,727,687
	=====	=====

See notes to consolidated financial statements

SCICLONE PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
Product sales.....	\$ 2,223,052	\$ 703,082	\$ 273,353
Cost of product sales.....	989,792	740,494	737,460
Gross margin.....	1,233,260	(37,412)	(464,107)
Operating expenses:			
Research and development.....	8,642,137	9,903,536	10,386,312
Marketing.....	4,144,499	4,240,208	4,323,327
General and administrative.....	3,662,441	3,182,972	2,903,991
Total operating expenses.....	16,449,077	17,326,716	17,613,630
Loss from operations.....	(15,215,817)	(17,364,128)	(18,077,737)
Interest and investment income, net.....	1,218,812	2,618,381	3,302,307
Net loss.....	\$(13,997,005)	\$(14,745,747)	\$(14,775,430)
Basic net loss per share.....	\$ (0.85)	\$ (0.85)	\$ (0.88)
Weighted average shares used in computing basic net loss per share amounts.....	16,472,765	17,421,312	16,881,652

See notes to consolidated financial statements

SCICLONE PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENT OF SHAREHOLDERS' EQUITY

	COMMON STOCK		NOTE	NET UNREALIZED		
	SHARES	AMOUNT	RECEIVABLE	GAIN (LOSS) ON	ACCUMULATED	DEFERRED
	-----	-----	FROM FORMER	AVAILABLE-FOR-	DEFICIT	COMPENSATION
	-----	-----	OFFICER	SALE	-----	-----
				SECURITIES		
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1994.....	17,086,780	\$107,648,758	\$ --	\$(2,304,989)	\$(41,830,089)	\$ (759,649)
Issuance of common stock from exercise of stock options.....	66,477	191,686	--	--	--	--
Repurchase of common stock.....	(346,000)	(1,924,896)	--	--	--	--
Amortization of deferred compensation	--	--	--	--	--	554,796
Net unrealized gain on available-for-sale securities.....	--	--	--	2,755,075	--	--
Net loss.....	--	--	--	--	(14,775,430)	--
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1995.....	16,807,257	105,915,548	--	450,086	(56,605,519)	(204,853)
Issuance of common stock from exercise of stock options and warrants and employee stock purchase plan.....	802,938	3,731,284	--	--	--	--
Repurchase of common stock.....	(78,000)	(658,813)	--	--	--	--
Amortization of deferred compensation.....	--	--	--	--	--	204,853
Net unrealized loss on available-for-sale securities.....	--	--	--	(621,211)	--	--
Net loss.....	--	--	--	--	(14,745,747)	--
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1996.....	17,532,195	108,988,019	--	(171,125)	(71,351,266)	--
Issuance of common stock from exercise of stock options and warrants and employee stock purchase plan.....	495,663	2,312,746	--	--	--	--
Repurchase of common stock.....	(684,500)	(4,267,249)	--	--	--	--
Note receivable from former officer.....	--	--	(5,944,000)	--	--	--
Net unrealized gain on available-for-sale securities.....	--	--	--	153,537	--	--
Net loss.....	--	--	--	--	(13,997,005)	--
	-----	-----	-----	-----	-----	-----
Balance at December 31, 1997.....	17,343,358	\$107,033,516	\$(5,944,000)	\$ (17,588)	\$(85,348,271)	\$ --
	=====	=====	=====	=====	=====	=====

TOTAL
SHAREHOLDERS'
EQUITY

Balance at December 31, 1994.....	\$ 62,754,031
Issuance of common stock from exercise of stock options.....	191,686
Repurchase of common stock.....	(1,924,896)
Amortization of deferred compensation	554,796
Net unrealized gain on available-for-sale securities.....	2,755,075
Net loss.....	(14,775,430)

Balance at December 31, 1995.....	49,555,262

Issuance of common stock from exercise of stock options and warrants and employee stock purchase plan.....	3,731,284
Repurchase of common stock.....	(658,813)
Amortization of deferred compensation.....	204,853
Net unrealized loss on available-for-sale securities.....	(621,211)
Net loss.....	(14,745,747)

Balance at December 31, 1996.....	37,465,628
Issuance of common stock from exercise of stock options and warrants and employee stock purchase plan.....	2,312,746
Repurchase of common stock.....	(4,267,249)
Note receivable from former officer.....	(5,944,000)
Net unrealized gain on available-for-sale securities.....	153,537
Net loss.....	(13,997,005)

Balance at December 31, 1997.....	\$ 15,723,657
	=====

See notes to consolidated financial statements

SCICLONE PHARMACEUTICALS, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	YEAR ENDED DECEMBER 31,		
	1997	1996	1995
OPERATING ACTIVITIES:			
Net loss.....	\$(13,997,005)	\$(14,745,747)	\$(14,775,430)
Adjustments to reconcile net loss to net cash used in operating activities:			
Depreciation and amortization.....	178,484	313,560	713,343
Changes in operating assets and liabilities:			
Prepaid expenses and other assets.....	1,769,676	(490,243)	(1,924,132)
Accounts receivable.....	(779,724)	(136,668)	(108,410)
Inventory.....	562,659	(248,398)	(1,340,190)
Accounts payable and other accrued expenses.....	(401,225)	802,066	64,276
Accrued clinical trials expense.....	245,833	(1,090,410)	238,437
Accrued professional fees.....	(1,576,000)	1,224,000	(10,000)
Accrued compensation and benefits.....	(58,819)	(269,130)	43,858
Net cash used in operating activities	(14,056,121)	(14,640,970)	(17,098,248)
INVESTING ACTIVITIES:			
Purchase of property and equipment.....	(404,156)	(94,409)	(204,077)
Sale of marketable securities, net.....	21,335,290	12,319,191	14,728,955
Net cash provided by investing activities.....	20,931,134	12,224,782	14,524,878
FINANCING ACTIVITIES:			
Proceeds from issuance of common stock, net.....	2,312,746	3,731,284	191,686
Notes receivable from former officer.....	(5,944,000)	--	--
Repurchase of common stock.....	(4,267,249)	(658,813)	(1,924,897)
Net cash (used in) provided by financing activities.....	(7,898,503)	3,072,471	(1,733,211)
Net (decrease) increase in cash and cash equivalents.....	(1,023,490)	656,283	(4,306,581)
Cash and cash equivalents, beginning of period.....	4,642,590	3,986,307	8,292,888
Cash and cash equivalents, end of period.....	\$ 3,619,100	\$ 4,642,590	\$ 3,986,307

See notes to consolidated financial statements.

**SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS**

NOTE 1 -- THE COMPANY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

SciClone Pharmaceuticals, Inc. ("SciClone" or the "Company") is an international biopharmaceutical company that acquires, develops and commercializes specialist-oriented proprietary drugs for treating chronic and life-threatening diseases, including hepatitis B, hepatitis C, cancer, immune system disorders and cystic fibrosis. Currently, the Company has two products in clinical development, ZADAXIN for hepatitis B, hepatitis C, cancer and immune system disorders, and CPX for cystic fibrosis. The Company has other drug candidates in preclinical development. To date, the Company's principal focus has been the development and commercialization of ZADAXIN and the development of CPX.

Basis of Presentation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. The principal office of the Company's subsidiary is located in Hong Kong. All significant intercompany accounts and transactions have been eliminated

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents and Investments

Cash equivalents consist of highly liquid investments with remaining maturities of three months or less. All cash equivalents are carried at cost plus accrued interest, which approximates market.

The Company has classified its entire investments portfolio as available-for-sale and records these investments at fair value, as determined by available market information, on the balance sheet. The portfolio primarily consists of U.S. Government securities and short-term and long-term debt instruments. Unrealized holding gains or losses are carried as a separate component of shareholders' equity. The amortized cost of debt securities classified as available-for-sale is adjusted for amortization of premiums and accretion of discounts to maturity. Such amortization is included in investment income along with interest earned. Realized gains or losses, and declines in value judged to be other than temporary are also included in investment income. Management believes the credit risk associated with these investments is limited due to the nature of investments.

For the year ended December 31, 1997, net unrealized gains of approximately \$154,000 were charged to shareholders' equity, leaving a balance at December 31, 1997 of approximately \$18,000 of net unrealized losses. For the year ended December 31, 1996, net unrealized losses of approximately \$621,000 were charged to shareholders' equity, leaving a balance at December 31, 1996 of approximately \$171,000 of net unrealized losses.

Property and Equipment

Property and equipment is stated at cost, less accumulated depreciation. Depreciation is provided over the estimated useful lives of the respective assets (three to five years) on the straight-line basis.

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

Notes Receivable from Officers

In August 1996, the Company extended a loan to one of its executive officers with an aggregate principal amount of \$1,000,000 to be used to finance the purchase of his primary residence. The loan is secured by a first deed of trust on the property, bears interest at 8% per annum and is payable in July 2000.

In June 1995, the Company extended a loan to one of its executive officers with an aggregate principal amount of \$1,365,000 to be used to finance the purchase and renovation of his primary residence. The loan is secured by a first deed of trust on the property and 20,000 shares of SciClone Common Stock owned by the executive officer, bears interest at 7.5% per annum and is payable in July 2000.

In July 1995, the Company extended a loan to one of its former board members and former executive officers in the principal amount of \$95,000 which carries an interest rate of 7.375%. In December 1995, the Company extended an additional loan to this individual in the principal amount of \$600,000, which carries an interest rate of 7.50%. The loans were due and payable in December 1997 after which they became subject to an additional 3.5% accelerated interest. The loans are secured by a second deed of trust on residential property owned by this individual. At December 31, 1997, these loans have not been repaid. The Company expects the loans to be repaid, both principal and accrued interest, in 1998.

At December 31, 1997 and 1996, the fair value of the notes receivable from officers was \$2,320,000 and \$2,710,000 respectively. The fair value was estimated using discounted cash flow analyses, using interest rates currently being offered for loans with similar terms of borrowers of similar credit quality.

Foreign Currency Translation

The Company has determined the U.S. dollar to be the functional currency for its wholly owned subsidiaries. Adjustments resulting from translation are included in results of operations and have not been significant.

Revenue Recognition

The Company recognizes revenue from product sales at the time of shipment.

Research and Development

Research and development expenditures are charged to operations as incurred.

Income Taxes

Income tax expense is based on reported results of operations before extraordinary items and income taxes. Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred taxes are measured by applying current tax laws. Based on the Company's lack of earnings history, deferred tax assets have been fully offset by a valuation allowance.

Retirement Benefits

The Company has a pre-tax savings plan covering substantially all U.S. employees, which qualifies under Section 401(k) of the Internal Revenue Code. Under the plan, eligible employees may contribute a portion of their pre-tax salary, subject to certain limitations. The Company contributes and matches 20% of the employee contributions, up to 6% of the employee's salary. Company contributions, which can be terminated at the Company's discretion, were \$26,000, \$25,000, and \$24,000 for the years ended December 31, 1997, 1996, and 1995, respectively. The plan commenced on January 1, 1991.

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

Net Loss Per Share

Effective December 31, 1997, the Company adopted Statement of Financial Accounting Standards No. 128, "Earnings Per Share" ("SFAS 128"). SFAS 128 requires the presentation of basic earnings (loss) per share and diluted earnings (loss) per share, if more dilutive, for all periods presented. In accordance with SFAS 128, basic net loss per share has been computed using the weighted average number of shares of common stock outstanding during the period. The weighted average number of shares are different than what was disclosed in a prior press release due to the exclusion of shares held as collateral against a former officer's loan (see Note 8). Diluted net loss per share has not been presented as the result would be antidilutive given the Company's history of net losses.

Had the Company been in a net income position, diluted earnings per share would have included the shares used in the computation of basic net loss per share as well as an additional 3,058,734, 2,991,260, 3,026,392 shares in 1997, 1996 and 1995, respectively, related to outstanding options and warrants not included in the calculation of basic net loss per share.

Accounting for Employee Stock-Based Compensation

As permitted by SFAS 123, the Company accounts for its stock option and employee stock purchase plans under the provisions of Accounting Principles Board Opinion 25 ("APB 25") and related Interpretations. Accordingly, the Company does not recognize compensation expense in accounting for its stock option and employee stock purchase plans for awards which have an exercise price equal to the fair value of the Company's common stock on the date of the grant.

Recent Accounting Pronouncements

In June 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income," and Statement of Financial Accounting Standards No. 131 ("SFAS 131"), "Disclosures about Segments of an Enterprise and Related Information," which require additional disclosures to be adopted beginning in the first quarter of 1998 and on December 31, 1998, respectively. Under SFAS 130, the Company is required to display comprehensive income and its components as part of the Company's full set of financial statements. SFAS 131 requires that the Company report financial and descriptive information about its reportable operating segments. The Company is evaluating the impact if any, of SFAS 130 and SFAS 131 on its future financial statement disclosures, but does not believe the additional disclosure will be material to the financial statements.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year's presentation.

Impact of the Year 2000

As the year 2000 approaches, an issue impacting all companies has emerged regarding how existing application software programs and operating systems can accommodate this date value. In brief, many existing application software products in the marketplace were designed to accommodate only a two digit date position which represents the year (e.g., "95" is stored on the system and represents the year 1995). As a result, the year 1999 (i.e., "99") could be the maximum date value systems will be able to accurately process. Management is in the process of working with its software vendors to assure that the Company is prepared for the year 2000. Management does not anticipate that the Company will incur significant operating expenses or be required to invest heavily in computer system improvements to be year 2000 compliant.

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

NOTE 2 -- INVESTMENTS

The following is a summary of available-for-sale securities:

	AVAILABLE-FOR-SALE SECURITIES			
	AMORTIZED COST	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED FAIR VALUE
DECEMBER 31, 1997:				
U.S. government & agency obligations.....	\$ 3,873,492	\$17,045	\$ (3,509)	\$ 3,887,028
Corporate obligations.....	5,356,643	6,612	(39,751)	5,323,504
Corporate equity securities.....	100,000	8,333	(37,500)	70,833
	\$ 9,330,135	\$31,990	\$ (80,760)	\$ 9,281,365
	=====	=====	=====	=====
DECEMBER 31, 1996:				
U.S. government & agency obligations.....	\$21,974,342	\$37,048	\$ (158,340)	\$21,853,050
Corporate obligations.....	8,459,901	10,882	(23,535)	8,447,248
Corporate equity securities.....	200,000	12,820	(50,000)	162,820
	\$30,634,243	\$60,750	\$ (231,875)	\$30,463,118
	=====	=====	=====	=====

The amortized cost and estimated fair value of debt and investments at December 31, 1997 by contractual maturity are shown below.

	AMORTIZED COST	ESTIMATED FAIR VALUE
Due in one year or less.....	\$3,813,655	\$3,795,174
Due after one year through three years.....	5,416,480	5,415,358
	9,230,135	9,210,532
Corporate equity securities.....	100,000	70,833
	\$9,330,135	\$9,281,365
	=====	=====

NOTE 3 -- INVENTORIES

Inventories are stated at the lower of cost (first-in, first-out basis) or market. Inventories consisted of the following:

	DECEMBER 31,	
	1997	1996
Raw materials.....	\$1,568,071	\$1,545,923
Finished goods.....	478,147	1,062,954
	\$2,046,218	\$2,608,877
	=====	=====

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

NOTE 4 -- PROPERTY AND EQUIPMENT

Property and equipment consisted of the following:

	DECEMBER 31,	
	1997	1996
Office furniture and fixtures.....	\$300,469	\$279,369
Office equipment.....	798,629	619,709
Leasehold improvements.....	204,136	--
	-----	-----
	1,303,234	899,078
Less accumulated depreciation.....	778,157	599,673
	-----	-----
Net property and equipment.....	\$525,077	\$299,405
	=====	=====

NOTE 5 -- LICENSE AGREEMENTS

Pursuant to its 1994 license agreement with Alpha 1 Biomedicals, Inc. ("A1B"), the Company obtained worldwide marketing, development and manufacturing rights to thymosin alpha 1, with the exception of Italy, Spain and Portugal. In April 1997, SciClone entered into an arrangement with A1B to administer the sublicense activities of the A1B licensee for Italy, Spain and Portugal. Under this 1997 agreement, the Company also acquired control of A1B's patent portfolio for thymosin alpha 1. In December 1997, SciClone and A1B entered into an Asset Purchase Agreement pursuant to which the Company will acquire A1B's worldwide rights to thymosin alpha 1, which rights A1B licensed from Hoffmann-LaRoche, Inc. and F. Hoffmann-LaRoche AG (collectively, "Roche"), and eliminated the Company's and its current and future sublicensee's royalty obligations to A1B with respect to future sales of thymosin alpha 1. The Company has agreed in its Asset Purchase Agreement to issue up to 600,000 shares of common stock and make loans up to an aggregate amount of \$280,000 to A1B in exchange for the assets described above. The Agreement is subject to approval by A1B's stockholders at A1B's 1998 Annual Meeting of Stockholders and receipt of consents from Roche.

In October 1996, the Company entered into an expanded and amended license and supply agreement with Schering-Plough K.K. ("SPKK"), giving SPKK exclusive development and marketing rights to ZADAXIN in Japan. Under the amended agreement, the Company expects SPKK to continue development of ZADAXIN monotherapy for the treatment of hepatitis B and hepatitis C and to initiate investigation of the combination ZADAXIN plus SPKK's INTRON(R) A (interferon alfa-2b) for the treatment of hepatitis C, with the parties sharing certain development expenses. SPKK will undertake the development, registration and marketing of ZADAXIN in Japan. Contingent upon product approval, SciClone will receive milestone payments. To date, there has been no license fee revenue recognized by the Company.

In April 1996, the Company acquired an exclusive license to CPX, a synthetic compound, from the National Institutes of Health ("NIH"). The NIH developed CPX as a potential treatment for cystic fibrosis. Under this license agreement, the Company is obligated to pay the NIH a minimum annual royalty payment and, upon product approval, will receive a milestone payment in addition to royalties based on a percentage of CPX net sales revenue.

In December 1994, the Company acquired the rights to develop, manufacture, and commercialize thymosin alpha 1 in South Korea from a pharmaceutical company.

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

NOTE 6 -- INCOME TAXES

The domestic and foreign components of loss before income tax are as follows:

	1997	1996	1995
	-----	-----	-----
Domestic.....	\$ (8,515,547)	\$ (6,125,896)	\$ (5,675,924)
Foreign.....	(5,481,458)	(8,610,042)	(9,099,506)
	-----	-----	-----
Loss before income tax.....	\$(13,997,005)	\$(14,735,938)	\$(14,775,430)
	=====	=====	=====

The significant components of the Company's deferred tax assets and liabilities at December 31, 1997, 1996 and 1995 are as follows:

	1997	1996	1995
	-----	-----	-----
ASSETS			
Net operating loss carryforwards.....	\$ 12,640,000	\$ 9,854,000	\$ 6,231,000
Other, net.....	2,500,000	1,795,000	277,000
	-----	-----	-----
Gross deferred tax assets.....	15,140,000	11,649,000	6,508,000
Valuation allowance.....	(15,070,000)	(11,426,000)	(6,308,000)
	-----	-----	-----
Total deferred tax asset.....	\$ 70,000	\$ 223,000	\$ 200,000
	-----	-----	-----
LIABILITIES			
Net unrealized gains on available-for-sale securities.....	\$ --	\$ --	\$ 200,000
Other.....	70,000	223,000	--
	-----	-----	-----
Total deferred tax liability.....	70,000	223,000	200,000
	-----	-----	-----
Net deferred tax assets.....	\$ --	\$ --	\$ --
	=====	=====	=====

Deferred tax assets relating to net operating loss carryforwards as of December 31, 1997 and 1996 include \$3,400,000 and \$3,300,000, respectively, associated with stock option activity for which any subsequently recognized tax benefits will be credited directly to shareholders' equity.

At December 31, 1997, the Company had net operating loss carryforwards for U.S. tax purposes totaling approximately \$34,000,000, expiring in 2006-2012, and approximately \$10,000,000 in state net operating losses expiring in 1998-2002. The difference between the current year's loss for financial reporting purposes and federal income tax purposes is primarily attributable to losses incurred by the Company's foreign subsidiaries.

Due to the change in ownership provisions of the Tax Reform Act of 1986, utilization of net operating loss carryforwards may be limited against taxable income in future periods.

NOTE 7 -- COMMITMENTS AND CONTINGENCIES

Leases

The Company leases its main office facility under a non-cancelable lease agreement which expires in April 2000. The lease is for a period of five years and requires the Company to pay insurance and taxes and its pro-rata share of operating expenses. The Company also leases various office facilities abroad under non-cancelable lease agreements, expiring in 2002. Rental expense in 1997, 1996, and 1995 was \$462,000, \$397,000, and \$391,000 respectively. Minimum future rental commitments amount to \$494,000 in 1998, \$509,000 in 1999, \$147,000 in 2000, \$139,000 in 2001 and \$145,000 in 2002.

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

Royalties

Under the April 1996 CPX license agreement with the NIH, the Company is obligated to pay the NIH a minimum annual royalty and, upon commercialization of CPX, will be obligated to pay a royalty based on a percentage of CPX net sales revenue. During 1997, the Company paid \$10,000 related to the minimum annual royalty. No royalties were paid in 1996.

In October 1992, the Company amended its services agreement with a Japanese trading company. Upon receipt by SciClone of any revenues in Japan for ZADAXIN, the Japanese trading company will receive a royalty as a percentage of such revenues for a specified period of time. To date, no royalty amounts have been paid or are due the Japanese trading company with respect to this agreement.

NOTE 8 -- SHAREHOLDERS' EQUITY

Common Stock and Warrants

In January 1994, the Company sold 2,000,000 shares of common stock in an underwritten public offering at \$23.25 per share. The Company received approximately \$43,600,000 in net proceeds from the offering.

In conjunction with its initial public offering ("IPO"), the Company granted its IPO investment banker warrants to purchase 300,000 shares of common stock and 300,000 non-redeemable warrants. The warrants were exercisable during the four-year period ending March 16, 1997. The exercise price of the 300,000 shares of common stock was \$6.00 per share and the non-redeemable warrants was at \$0.33 per warrant. The non-redeemable warrants were further exercisable into one common share at \$15.55 per share. In March 1997, 164,995 warrants exercisable at \$6.00 per share remained outstanding and were exercised by the Company's IPO investment banker resulting in proceeds of approximately \$990,000. In exchange for exercising the outstanding warrants at \$6.00 per share, the Company lowered the exercise price of the non-redeemable warrants from \$15.55 per share to \$4.00 per share. In October 1997, 300,000 warrants were exercised at \$4.00 per share by the Company's IPO investment banker resulting in proceeds of approximately \$1,200,000.

In July 1997, the Company loaned to one of its former board members and former executive officers \$5.944 million secured by approximately 1.9 million shares of the Company's common stock owned by this individual. The loan carries interest at 7%. During the period this loan is outstanding and immediately prior to the closing of any offering of the Company's common stock, the Company may convert the loan in a non-cash exchange into this individual's SciClone common stock by retiring his SciClone common stock at a fixed discount rate from the offering price. To date, the Company has not retired any of this individual's SciClone common stock. On December 31, 1997, the balance of the loan was \$5.944 million and was classified as an offset to shareholders' equity.

Repurchase of Common Stock

In 1995 and 1994, the Company's Board of Directors authorized the repurchase of up to 1.0 million and 1.5 million shares of the Company's common stock, respectively. In the year ended December 31, 1997, 1996, and 1995, the Company repurchased 684,500, 78,000, and 346,000 shares of its common stock for an aggregate cost of \$4,267,000, \$659,000, and \$1,925,000, respectively.

Stock Award Plans

In August 1991, the Board of Directors and shareholders of the Company approved the 1991 Stock Plan (the "1991 Plan") and reserved 1,300,000 shares for issuance thereunder. In May 1993, the Board of Directors and shareholders of the Company approved a 2,150,000 share increase in the shares reserved under the 1991 Plan. The 1991 Plan permits the award of incentive or nonqualified stock options and shares of common stock under restricted stock purchase agreements. In January 1992, the Board of Directors and

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

shareholders of the Company approved the 1992 Stock Plan (the "1992 Plan") and reserved 240,000 shares for issuance thereunder. The 1992 Plan permits the award of incentive or nonqualified stock options which must be exercised in cash. In June 1995, the Board of Directors and the shareholders of the Company approved the 1995 Equity Incentive Plan (the "1995 Plan") and reserved 1,250,000 shares for issuance thereunder. The 1995 Plan permits the award of incentive or nonqualified stock options and shares of common stock under restricted stock awards.

Under the 1991, 1992 and 1995 Plans, options are exercisable upon conditions determined by the Board of Directors and expire ten years from the date of grant. Options are generally granted at fair market value on the date of grant and vest over time, generally four years.

In June 1995, the Board of Directors and the shareholders of the Company approved the Nonemployee Director Stock Option Plan (the "Nonemployee Director Plan") and reserved 250,000 shares for issuance thereunder. The Nonemployee Director Plan automatically grants nonqualified stock options to nonemployee directors upon their appointment or first election to the Company's Board of Directors ("Initial Grant") and annually upon their reelection to the Board of Directors at the Company's Annual Meeting of Shareholders ("Annual Grant"). The options are granted at fair market value on the date of grant. Initial Grants vest annually over a period of three years. Annual Grants vest monthly over a period of one year.

In July 1996, the Board of Directors and shareholders of the Company approved the 1996 Employee Stock Purchase Plan (the "ESPP") and reserved 500,000 shares for issuance thereunder. All full-time employees are eligible to participate in the ESPP. Under the terms of the ESPP, employees can choose to have up to 15% of their salary withheld to purchase the Company's common stock. The purchase price of the stock is the lower of 85% of the fair market value as of the first trading day of each quarterly participation period, or as of the last trading day of each quarterly participation period. Under the ESPP, the Company sold 20,432 and 5,675 shares to employees in 1997 and 1996, respectively.

The following table summarizes the stock option activity under the 1991, 1992 and 1995 plans and the Nonemployee Director Plan:

	SHARES AVAILABLE FOR GRANT	SHARES UNDER OPTION	WEIGHTED AVERAGE EXERCISE PRICE OF SHARES UNDER PLAN
	-----	-----	-----
BALANCE AT DECEMBER 31, 1994.....	801,212	2,225,337	\$5.81
1995 Plan shares reserved.....	1,250,000	--	--
Nonemployee Director Plan shares reserved...	250,000	--	--
Options canceled.....	63,963	(63,963)	5.93
Options granted.....	(436,500)	436,500	5.68
Options exercised.....		(66,477)	2.88
	-----	-----	
BALANCE AT DECEMBER 31, 1995.....	1,928,675	2,531,397	5.86
Options canceled.....	107,357	(107,357)	7.97
Options granted.....	(901,850)	901,850	5.73
Options exercised.....		(799,625)	4.66
	-----	-----	
BALANCE AT DECEMBER 31, 1996.....	1,134,182	2,526,265	6.11
Options canceled.....	232,595	(232,595)	7.03
Options granted.....	(775,300)	775,300	5.12
Options exercised.....	--	(10,236)	3.14
	-----	-----	
BALANCE AT DECEMBER 31, 1997.....	591,477	3,058,734	\$5.80
	=====	=====	

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

The following table summarizes information concerning outstanding and exercisable options as of December 31, 1997:

RANGE OF EXERCISE PRICES	OPTIONS OUTSTANDING			OPTIONS EXERCISABLE	
	NUMBER OUTSTANDING	WEIGHTED AVERAGE REMAINING CONTRACTUAL LIFE	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER EXERCISABLE	WEIGHTED AVERAGE EXERCISE PRICE
0.30 - \$ 0.30.....	14,000	3.75	\$ 0.30	14,000	\$ 0.30
3.00 - \$ 4.38.....	381,578	5.12	3.50	355,161	3.46
4.80 - \$ 7.25.....	2,314,531	8.08	5.49	1,145,190	5.72
7.59 - \$12.50.....	348,625	6.42	10.57	297,975	10.82
	3,058,734	7.50	\$ 5.80	1,812,326	\$ 6.07
	=====			=====	

As permitted by SFAS 123, the Company applies APB 25 and related Interpretations in accounting for its stock award plans and accordingly, does not recognize compensation expense for awards which have an exercise price equal to the fair value of the Company's common stock on the date of the grant.

Pro forma information regarding net loss and net loss per share is required by SFAS 123 and has been determined as if the Company had accounted for its stock awards under the fair value method of that Statement. The fair value for the options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 1997, 1996 and 1995: risk-free interest rates of 6.16%, 5.14% and 6.81%, respectively; dividend yields of 0%; volatility factors of the expected market price of the Company's stock of .83 for 1997 and .84 for 1996 and 1995; and a weighted average expected life of the option of 4.31 years for 1997 and 4.37 years for 1996 and 1995. The fair value for the employee stock purchases was also estimated using the Black-Scholes model with the following assumptions for 1997 and 1996: risk-free interest rate of 5.23% and 5.3% respectively; dividend yield of 0%; expected volatility of .74 and .84 respectively, and expected life of .25 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. Because the Company's employee stock awards have characteristics significantly different from those of traded options, and because changes in subjective input assumptions can materially affect the fair value estimate, in the Company's opinion, the existing models do not necessarily provide a reliable single measure of the fair value of its employee stock options and stock purchases.

The Company recorded deferred compensation of approximately \$2.4 million related to 1992 stock option grants. The deferred compensation is amortized over the vesting period, which ranged from two to five years. For the years ended December 31, 1996, and 1995, approximately \$205,000 and \$555,000, of deferred compensation related to stock option grants was charged to compensation expense, respectively. There was no deferred compensation charged to compensation expense for the year ended December 31, 1997.

SCICLONE PHARMACEUTICALS, INC.
NOTES TO CONSOLIDATED FINANCIALS (CONTINUED)

Had compensation expense for the Company's option and employee purchase plans been determined based on the fair value at the grant date for awards in 1997, 1996 and 1995 consistent with the provisions of SFAS 123, the Company's net loss and net loss per share would have been adjusted to the pro forma amounts indicated below:

	1997	1996	1995
	-----	-----	-----
Net loss -- as reported.....	\$(13,997,000)	\$(14,746,000)	\$(14,775,000)
	=====	=====	=====
Net loss -- pro forma.....	\$(15,726,000)	\$(15,821,000)	\$(14,643,000)
	=====	=====	=====
Net loss per share -- as reported.....	\$ (0.85)	\$ (0.85)	\$ (0.88)
	=====	=====	=====
Net loss per share -- pro forma.....	\$ (0.95)	\$ (0.91)	\$ (0.87)
	=====	=====	=====

The effects of applying SFAS 123 for pro forma disclosures are not likely to be representative of the effects on reported net loss for future years. Pro forma net loss for the year ended December 31, 1997 reflects compensation expense for three years' vesting while the year ended December 31, 1998 will reflect compensation expense for four years' vesting of outstanding stock awards.

NOTE 9 -- SIGNIFICANT GEOGRAPHIC INFORMATION

Approximate foreign sources of revenues were as follows:

	1997	1996	1994
	-----	-----	-----
Asia.....	\$2,131,000	\$636,000	\$239,000
Other.....	92,000	67,000	34,000

For the year ended December 31, 1997, one customer in China accounted for 66% of the Company's product sales. Such customer represents 86% of the accounts receivable balance at December 31, 1997.

NOTE 10 -- SUBSEQUENT EVENTS

In March 1998, the Company received \$754,000 from one of its executive officers as a partial payment of a \$1,000,000 loan. This payment reduced the loan to \$236,500 including accrued interest. (See "Note 1 -- Notes Receivable from Officers.")

In April 1998, the Company sold 661,157 shares of Series C convertible preferred stock at \$6.05 per share and received approximately \$4,000,000 from the offering (before deducting expenses). The preferred stock is convertible into common stock on a scheduled basis over the next five years at prices based on the market price of the common stock during a pricing period preceding conversion. In conjunction with the offering, the Company granted to the investor warrants to purchase 100,000 shares of common stock. These warrants are exercisable during the five year period ending March 2003 at an exercise price of \$5.67 per share. (See "Business -- Recent Developments.")

SCICLONE PHARMACEUTICALS, INC.

REPORT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

The Board of Directors and Shareholders
SciClone Pharmaceuticals, Inc.

We have audited the accompanying consolidated balance sheets of SciClone Pharmaceuticals, Inc. as of December 31, 1997 and 1996 and the related consolidated statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of SciClone Pharmaceuticals, Inc. at December 31, 1997 and 1996, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

ERNST & YOUNG LLP

Palo Alto, California
January 16, 1998, except Note 10 as to
which date is April 2, 1998

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

Not Applicable.

PART III

ITEM 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

The executive officers and directors of the Company, their ages as of February 28, 1997, and certain other information about them are set forth below:

NAME ----	AGE ---	POSITION -----
Donald R. Sellers.....	53	President, Chief Executive Officer and Director
Alfred R. Rudolph, M.D.....	50	Chief Operating Officer
Shawn K. Singh, J.D.....	34	Senior Vice President and Assistant Secretary
David A. Karlin, M.D.....	54	Vice President and Medical Director
Mark A. Culhane.....	38	Vice President, Finance and Administration, Chief Financial Officer and Secretary
Jere E. Goyan, Ph.D.....	67	Chairman of the Board of Directors
John D. Baxter, M.D.....	57	Director
Edwin C. Cadman, M.D.....	52	Director
Rolf H. Henel.....	60...	Director

Donald R. Sellers has served as the Company's Chief Executive Officer since April 1996 and as President and Director since January 1996. From May 1993 to present, he has also served as Managing Director, SciClone Pharmaceuticals International Ltd., the international arm of the Company. From 1990 to 1993, Mr. Sellers was Corporate Vice President of Getz Bros., a U.S.-based international trading company, as well as President of one of their Japanese operations. From 1983 to 1990, Mr. Sellers was employed by Sterling Drug International, initially as Vice President of Marketing and Operations in Asia and later as President of their Latin American Andina Group. Mr. Sellers began his pharmaceutical career in 1973 with Pfizer as Country Manager, Vietnam and Hong Kong, and he later worked with the Revlon Healthcare Group as Director of Worldwide Exports and Pacific Area Director.

Alfred R. Rudolph, M.D. joined the Company in April 1997 as Chief Technical Officer and was promoted to Chief Operating Officer in August 1997. From January 1995 to September 1995, Dr. Rudolph was President and Chief Operating Officer of Neptune Pharmaceuticals, Inc., a marine-based natural product screening company. Dr. Rudolph was Senior Vice President of T Cell Sciences, Inc., a biotechnology company, from December 1991 to September 1994 and was Vice President, Medical Affairs from March 1990 to December 1991.

Shawn K. Singh, J.D. has served as the Company's Senior Vice President and Assistant Secretary since January 1998. From October 1997 to January 1998, Mr. Singh was SciClone's Vice President of Corporate Development and Communications. From August 1995 to October 1997, Mr. Singh served as the Company's Vice President of Business Development. He joined SciClone in November 1993 as Director of Business Development. Prior to SciClone, Mr. Singh specialized in corporate finance, licensing and acquisitions in the Silicon Valley office of Morrison & Foerster, an international law firm. Mr. Singh is a member of the California State Bar.

David A. Karlin, M.D. has served as a Company Vice President since July 1996 and as a Medical Director since June 1995. Dr. Karlin joined SciClone with oncology, gastroenterology, antiemetic and analgesic drug development experience. Prior to SciClone, Dr. Karlin spent nine years in various roles at Syntex Corporation ("Syntex"). These included the positions of Director of Medical Research and Clinical Program Team Leader for Syntex Development Research, Senior Clinical Research Physician for Syntex Medical Research Europe, Associate Medical Director and Head, Gastroenterology and Anti-Ulcer Therapy Department for Institute of Clinical Medicine, Syntex. Before Syntex, Dr. Karlin spent ten years in academia as Associate Professor, Department of Medicine/Section of Gastroenterology at the Temple University

School of Medicine in Philadelphia, Assistant Professor, Department of Medicine/Gastroenterology Section at the University of Texas M.D. Anderson Hospital and Tumor Institute and Instructor, Department of Medicine/Gastroenterology Section the University of Chicago. Dr. Karlin held the position of Major USA MC for Department of Medicine Staff Gastroenterology Service and Staff Hematology Oncology Service at the University of Chicago, residency training in Internal Medicine at the University of Michigan and fellowship training in Gastroenterology/GI Oncology at the University of Chicago.

Mark A. Culhane, currently on an unpaid leave of absence, has been the Company's Vice President, Finance and Administration and Chief Financial Officer since May 1994 and its Secretary since November 1993. From June 1992 to May 1994, Mr. Culhane served in other financial positions with the Company. From July 1982 to June 1992, Mr. Culhane was employed by Price Waterhouse, an international public accounting firm, where his last position was Senior Manager.

Jere E. Goyan, Ph.D. has been a director of the Company since January 1992 and has been Chairman of the Board of Directors of the Company since July 1997. Since July 1993, Dr. Goyan has been President and Chief Operating Officer and a director of Alteon, Inc., a biotechnology company, where he served as Senior Vice President for Research and Development from January 1993 through July 1993 and as Acting Chief Executive Officer from July 1993 through May 1994. Dr. Goyan was Dean of the School of Pharmacy and Professor of Pharmacy and Pharmaceutical Chemistry at the University of California, San Francisco from 1967 through 1992, and was a Professor there from 1965 through 1992. From 1979 to 1981, Dr. Goyan was the Commissioner of the United States Food and Drug Administration. Dr. Goyan also currently serves as a director of Emisphere Technologies, Inc. and Atrix Laboratories, both biotechnology companies, and Boehringer Ingelheim Pharmaceuticals Corporation and Penwest Pharmaceuticals, a pharmaceutical company which is a 100% owned subsidiary of Penford Corporation.

John D. Baxter, M.D. has been a director of the Company and the Chairman of its Scientific Advisory Board since June 1991. Dr. Baxter has been associated with the University of California, San Francisco ("UCSF") since 1970. He has been Professor of Medicine since 1979, Chief of the Endocrinology Section, Parnassus Campus since 1980 and Director of UCSF's Metabolic Research Unit since 1981. Dr. Baxter was a founder and served as a director of California Biotechnology, Inc. (now Scios Nova, Inc.), a biotechnology company, from its inception in 1982 to 1991.

Edwin C. Cadman, M.D. has been a director of the Company and a member of its Scientific Advisory Board since November 1991. Since January 1994, Dr. Cadman has been Senior Vice President of Medical Affairs and Chief of Staff at Yale New Haven Hospital, where he was Chief of the Medical Service from 1987 through December 1993. Since 1987, Dr. Cadman has also been Professor of Medicine at Yale University, where he was Chairman of the Department of Medicine from 1987 through December 1993. Prior to these positions, he was Director of the Cancer Research Institute at UCSF. Dr. Cadman also currently serves as a director of CytoTherapeutics, Inc., a biotechnology company.

Rolf H. Henel joined the Company as a director in July 1997. Mr. Henel has been a partner at Naimark & Associates, Inc., a healthcare consulting firm, since September 1993. Mr. Henel has been Executive Director of Performance Effectiveness Corporation, Inc., a pharmaceutical consulting and education company, since April 1993. From 1978 to 1993, Mr. Henel was with Cyanamid, a chemical company, most recently as President of Cyanamid International Lederle Division. Mr. Henel is also a director of Penwest Pharmaceuticals, a pharmaceutical company which is a 100% owned subsidiary of Penford Corporation.

Directors serve one year terms or until their successors are elected and qualified. Executive officers serve at the discretion of the Board of Directors.

There are no family relationships among any of the directors or executive officers of the Company.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference from the definitive proxy statement for the Company's 1998 Annual Meeting of Shareholders to be filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form (the "Proxy Statement") under the caption "EXECUTIVE COMPENSATION."

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The information required by this Item is incorporated by reference from the Proxy Statement under the caption "STOCK OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT."

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

The information required by this Item is incorporated by reference from the Proxy Statement under the captions "TRANSACTIONS WITH MANAGEMENT" and "EXECUTIVE COMPENSATION -- Compensation Committee Interlocks and Insider Participation."

PART IV

ITEM 14. EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents are filed as part of this Report:

(1) Financial Statements. The following financial statements of the Company are contained on pages 26-41 of this Report on Form 10-K:

Consolidated Balance Sheets at December 31, 1997 and 1996.

Consolidated Statements of Operations for each of the three years ended December 31, 1997, 1996 and 1995.

Consolidated Statement of Shareholders' Equity for each of the three years ended December 31, 1997, 1996 and 1995.

Consolidated Statements of Cash Flows for each of the three years ended December 31, 1997, 1996 and 1995.

Notes to Consolidated Financial Statements.

Report of Ernst & Young LLP, Independent Auditors.

(2) Financial Statement Schedules

The following schedule is filed as part of this Report:

Schedule II -- Valuation and Qualifying Accounts for each of the three years ended December 31, 1997, 1996 and 1995.

All other schedules have been omitted because they are either inapplicable or the required information has been given in the consolidated financial statements or the notes hereto.

(3) Exhibits.

Refer to Item 14(c) below.

(b) Reports on Form 8-K.

Form 8-K filed on January 26, 1998 announcing the execution of the Alpha Rights Acquisition Agreement

Exhibits (numbered in accordance with Item 601 of Regulation S-K):

EXHIBIT NUMBER -----	DESCRIPTION -----
3(i).1(1)	Restated Articles of Incorporation
3(i).2(2)	Certificate of Amendment of Restated Articles of Incorporation
3(i).3(14)	Certificate of Determination
3(i).4	Certificate of Determination Regarding the terms of the Series C Preferred Stock
3(ii).1(1)	Bylaws
3(ii).2(2)	Certificate of Amendment of Bylaws
4.1(1)	Representative's Warrant Agreement, dated as of March 24, 1992, between the Registrant and Josephthal Lyon & Ross Incorporated
4.2(14)	Rights Agreement dated as of July 25, 1997 between the Registrant and Chase Mellon Shareholder Services, L.L.C.
4.3	Preferred Stock Investment Agreement dated March 27, 1998 by and among Registrant, Halifax Fund, L.P., Themis Partners L.P. and Heracles Fund
4.4	Registration Rights Agreement dated April 1, 1998 by and among Registrant, Halifax Fund, L.P., Themis Partners L.P. and Heracles Fund
10.1(5)	Thymosin License Agreement dated August 19, 1994 between Registrant and Alpha 1 Biomedicals, Inc.
10.2(3)	License, Development and Supply Agreement, dated January 12, 1993, between the Registrant and Schering-Plough K.K.
10.3(6)	Supply Agreement dated October 19, 1994 between Registrant and UCB Bioproducts S.A.
10.4(4)**	Manufacturing Services Agreement dated as of July 27, 1993 by and between SciClone Pharmaceuticals International Limited and Sclavo S.p.A.
10.5(1)	Services Agreement, dated August 28, 1991, between the Registrant and Nichimen Corporation (the "Nichimen Services Agreement")
10.6(3)	Restated Nichimen Services Agreement, dated October 5, 1992
10.7(2)**	Registrant's 1991 Stock Plan, together with forms of agreements thereunder
10.8(1)**	Registrant's 1992 Stock Plan, together with forms of agreements thereunder
10.9(9)**	Employment Agreement, dated January 3, 1995, between the Registrant and Mark A. Culhane
10.10(1)	Lease, dated September 10, 1991, between the Registrant and Spieker-Singleton68 concerning property, located at 901 Mariners Island Boulevard, San Mateo, California, as amended (the "Spieker Lease")
10.11(7)	Amendment No. 4 to Spieker Lease, dated October 4, 1994
10.12(9)	Amendment No. 7 to Spieker Lease, dated November 14, 1995
10.13(8)**	Registrant's 1995 Equity Incentive Plan, together with forms of agreement thereunder
10.14(8)**	Registrant's 1995 Nonemployee Director Stock Option Plan, together with forms of agreement thereunder
10.15(9)**	Form of Promissory Note and Deed of Trust With Assignment of Rents between the Registrant and David L. Horwitz, M.D., Ph.D.
10.16(9)	Employment Agreement dated February 1, 1996 between the Registrant and Donald R. Sellers

EXHIBIT NUMBER -----	DESCRIPTION -----
10.17(10)	License Agreement effective April 19, 1996 between the Registrant and the National Institute of Health Office of Technology Transfer
10.18(11)	Form of Promissory Note secured by Deed of Trust between Registrant and Donald R. Sellers
10.19(11)	Amendment No. 8 to Spieker Lease, dated August 26, 1996
10.20(13) *	Expanded and Amended License, Development and Supply Agreement dated October 28, 1996 by and between the Registrant and Schering-Plough K.K., a Japanese corporation
10.21(15)	Alpha Rights Acquisition Agreement by and between the Registrant and Alpha 1 Biomedicals, Inc., dated December 17, 1997
10.22(16)	Purchase and Sale, Pledge and Security Agreement; Release dated as of July 23, 1997 by Thomas Moore, in favor of SciClone Pharmaceuticals, Inc.
21.1	Subsidiaries of Registrant
23.1	Consent of Ernst & Young LLP, Independent Auditors
24.1	Powers of Attorney. See page 49.
27	Financial Data Schedule

* Confidential treatment requested.

** Management compensatory plan or arrangement.

- (1) Incorporated by reference from the Company's Registration Statement on Form S-1 (No. 33-45446), declared effective by the Commission on March 17, 1992.
- (2) Incorporated by reference from the Company's Registration Statement on Form S-8 (No. 33-66832) filed with the Commission on August 3, 1993.
- (3) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1992.
- (4) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1993.
- (5) Incorporated by reference from the Company's Report on Form 8-K dated August 19, 1994.
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- (7) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1994.
- (8) Incorporated by reference from the Company's Registration Statement on Form S-8 (No. 33-80911) filed with the Commission on December 28, 1995.
- (9) Incorporated by reference from the Company's Annual Report on Form 10-K for the year ended December 31, 1995.
- (10) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended March 31, 1996.
- (11) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 1996.
- (12) Incorporated by reference from the Company's Quarterly Report on Form 10-Q for the quarter ended September 30, 1996.
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- (15) Incorporated by reference from the Company's Current Report on Form 8-K filed on January 26, 1998
- (16) Incorporated by reference from the Company's Amendment No. 3 to its Registration Statement on Form S-3 (No. 333-38773) filed with the Commission December 2, 1997.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized.

SCICLONE PHARMACEUTICALS, INC.

/s/ DONALD R. SELLERS

By: _____

Donald R. Sellers,
Chief Executive Officer

Date: April 2, 1998

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints Donald R. Sellers and Shawn K. Singh, and each of them, his attorneys-in-fact and agents, each with the power of substitution and resubstitution, for him in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorneys-in-fact and agents, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary, to be done in connection therewith, as fully as to all intents and purposes as he might or could do in person, hereby ratifying and confirming all that said attorneys-in-fact and agents, or either of them, or their or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons in the capacities and on the dates indicated.

SIGNATURE -----	TITLE -----	DATE -----
/s/ DONALD R. SELLERS ----- Donald R. Sellers	Chief Executive Officer, Director (Principal Executive Officer)	April 2, 1998
/s/ DIANE LEE ----- Diane Lee	Director, Corporate Finance and Administration (Principal Financial and Accounting Officer)	April 2, 1998
/s/ JOHN D. BAXTER, M.D. ----- (John D. Baxter, M.D.)	Director	April 2, 1998
/s/ EDWIN C. CADMAN, M.D. ----- (Edwin C. Cadman, M.D.)	Director	April 2, 1998
/s/ JERE E. GOYAN, PH.D. ----- (Jere E. Goyan, Ph.D.)	Director	April 2, 1998

SCHEDULE II -- VALUATION AND QUALIFYING ACCOUNTS

SCICLONE PHARMACEUTICALS INC.

DESCRIPTION	BALANCE AT BEGINNING OF PERIOD	ADDITIONS		DEDUCTIONS	BALANCE AT END OF PERIOD
		CHARGED TO COSTS AND EXPENSES	CHARGED TO OTHER ACCOUNTS		
YEAR ENDED DECEMBER 31, 1997					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectable accounts.....	\$ 7,000	\$43,000	\$200,000(1)		\$250,000
Inventory Reserve.....	174,888		225,000(1)	74,888(2)	325,000
YEAR ENDED DECEMBER 31, 1996					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectable accounts.....	--	7,000			7,000
Inventory Reserve.....	114,753	60,135			174,888
YEAR ENDED DECEMBER 31, 1995					
Reserves and allowances deducted from asset accounts:					
Allowance for uncollectable accounts.....	--	14,753	100,000		114,753
Inventory Reserve.....	--				

(1) Transfer from General Reserve

(2) Adjustment to Reserve

INDEX TO EXHIBITS

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SCICLONE PHARMACEUTICALS, INC.

CERTIFICATE OF DETERMINATION

Regarding the Terms of the
Series C Preferred Stock

Pursuant to Section 401 of the General Corporation Law of the State of California:

We, the President and Assistant Secretary, respectively, of SciClone Pharmaceuticals, Inc. (the "Corporation"), organized and existing under the California Corporations Code, in accordance with the provisions of Section 401 thereof, DO HEREBY CERTIFY:

1. That pursuant to the authority conferred upon the Board of Directors by the Restated Articles of Incorporation, as amended, of the said Corporation, the said Board of Directors on March 20, 1998, adopted the following resolution creating a series of 800,000 shares of Preferred Stock designated as Series C Preferred Stock, none of which are issued or outstanding:

"RESOLVED, that pursuant to the authority vested in the Board of Directors of this Corporation in accordance with the provisions of its Restated Articles of Incorporation, a series of Preferred Stock of the Corporation be and it hereby is created, and that the determination and amount thereof and the powers, preferences and relative, participating, optional and other special rights of the shares of such series, and the qualifications, limitations or restrictions hereof are as follows:

Section 1. Designation and Amount and Issuance of Series C Preferred Stock. The shares of such series shall be designated as Series C Preferred Stock (the "Series C Preferred Stock") and the number of shares constituting such series shall be 800,000. The 800,000 shares of Series C Preferred Stock shall be issued by the Corporation pursuant to a Preferred Stock Investment Agreement ("Investment Agreement") to be entered into between the Corporation and the initial holder of Series C Preferred Stock. The "Closing Date" referred to herein shall be the date of closing of the issuance of Series C Preferred Stock pursuant to the Investment Agreement. The initial holder and the Corporation have

also entered into a Registration Rights Agreement ("Registration Rights Agreement") in connection with the Investment Agreement.

Section 2. Liquidation Preference.

(a) In the event of any liquidation, dissolution or winding up of the Corporation, either voluntary or involuntary, the holders of the Series C Preferred Stock shall be entitled to receive, prior and in preference to any distribution of any assets of the Corporation to the holders of any other class or series of shares ranking junior to the Series C Preferred Stock, an amount equal to the purchase price per share for the Series C Preferred Stock set forth in the Investment Agreement (which price shall be the same for each and every share of Series C Preferred Stock) plus default payments (which default payments shall be the same for each and every share of Series C Preferred Stock then outstanding) owing to such holder with respect to such share pursuant to the Registration Rights Agreement (the "Liquidation Preference").

(b) If upon the occurrence of an event described in Section 2(a), the assets thus distributed among the holders of the Series C Preferred Stock shall be insufficient to permit the payment to such holders of the full aforesaid preferential amounts, then the entire assets and funds of the Corporation legally available for distribution shall be distributed among the holders of the Series C Preferred Stock in proportion to the number of shares of Series C Preferred Stock each such holder owns.

(c) After the payment or setting apart for payment to the holders of Series C Preferred Stock of the full Liquidation Preference for the Series C Preferred Stock, the remaining assets of the Corporation shall be distributed ratably amongst the holders of the common stock of the Corporation (the "Common Stock") and Series C Preferred Stock on the basis of the number of shares of Common Stock held by each such persons, treating each share of Series C Preferred Stock as converted into that number of shares of Common Stock into which such share of Series C Preferred Stock is then convertible in accordance with Section 3 below.

(d) Any consolidation or merger of the Corporation with or into any other corporation or corporations, or a sale of all or substantially all of the assets of the Corporation (i) in which the shareholders of the Corporation immediately prior to the transaction hold less than fifty percent (50%) of the outstanding securities of the surviving entity and (ii) which does not fall within the definition of a Qualifying Acquisition under Section 3(n) below, shall be deemed to be a liquidation, dissolution, or winding up within the meaning of this Section 2.

Section 3. Conversion and Redemption Rights. Each holder of the Series C Preferred Stock shall have the right, at the option of such holder, to convert Series C Preferred Stock for such number of fully paid, validly issued and nonassessable shares of Common Stock, free and clear of any liens, claims or encumbrances, as is determined by dividing (i) the Liquidation Preference times the number of Series C Preferred Stock

being converted by (ii) the "Conversion Price" or the "Market Conversion Price," as specified in Section 3(b) and Section 3(c), on the "Conversion Date" (in each case as defined and set forth below) on the terms and conditions contained in this Section 3 (the "Common Shares"). The Corporation shall also have the right and/or obligation to redeem the Series C Preferred Stock on the terms and conditions contained in this Section 3.

(a) Shares Eligible for Conversion.

(i) Except as otherwise provided in Section 3(a)(ii) and Section 3(c), the Series C Preferred Stock may be converted from time to time into shares of Common Stock at the holder's option according to the following schedule:

Days after Closing Date	Series C Preferred Stock Convertible
0-90	0%
91-180	50%
From and after 181	100%

The number of shares of Series C Preferred Stock convertible at and after the times specified above shall be a number equal to the percentage indicated above (the "Applicable Percentage") of the total number of shares of Series C Preferred Stock issued on the Closing Date (the "Principal Amount").

(ii) Notwithstanding Section 3(a)(i), but subject to Section 3(c), the Series C Preferred Stock shall become fully convertible into shares of Common Stock on the terms set forth in this Section 3 during such times as the "Market Conversion Price" (as defined in Section 3(b)(ii)) is more than 160% of the "Closing Price" (as defined in Section 3(b)(iii)).

(b) Conversion Price.

(i) Except as provided in Section 3(c), the "Conversion Price" shall be equal to the lesser of (a) 160% of the Closing Price, and (b) the "Market Conversion Price"; provided, however, that, except as provided in Section 3(c), the Conversion Price shall not be less than the Closing Price.

(ii) The "Market Conversion Price" shall be equal to the average closing bid price of the Common Stock during any three consecutive Trading Days (as defined in Section 3(b)(iv)) selected by the Investor during the 22 Trading Days ending on the Trading Day immediately prior to the "Conversion Date" (as defined in Section 3(h)).

(iii) The "Closing Price" shall mean the average closing bid price for the Common Stock on the five consecutive Trading Days immediately preceding the Closing Date.

(iv) The term "Trading Day" shall mean (x) if the Common Stock is listed on the New York Stock Exchange or the American Stock Exchange, a day on which there is trading on such stock exchange, (y) if the Common Stock is not listed on either of such stock exchanges but sale prices of the Common Stock are reported on an automated quotation system, a day on which trading is reported on the principal automated quotation system on which sales of the Common Stock are reported, or (z) if the foregoing provisions are inapplicable, a day on which quotations are reported by National Quotation Bureau Incorporated. Notwithstanding the foregoing, a day shall not be considered a Trading Day if (i) trading of the Common Stock was suspended during the entire day or (ii) no reported trades occur on such day.

(v) The term "closing bid price" shall mean the closing bid price on the NASDAQ National Market System, the NASDAQ Small Cap Market, the New York Stock Exchange, the American Stock Exchange, or on any other automated quotation system, whichever is at the time the principal trading exchange or market for the Common Stock.

(c) Redemption or Conversion at Market Conversion Price.

(i) Commencing on the 91st day after the Closing Date, if at any time before the first anniversary of the Closing Date, the average closing bid price of the Common Stock on any consecutive three (3) Trading Days is less than the Closing Price, and, within one (1) day of such three (3) day period, if the holder does not deliver a written notice instructing the Corporation not to exercise its option under this Section 3(c), then, on the second Trading Day following such three

(3) consecutive Trading Days (the "Option Date"), the Corporation shall have the option ("Option") to offer to the holders of the Series C Preferred Stock the opportunity for such holders to redeem, for cash, the Applicable Percentage of the Principal Amount of the Series C Preferred Stock (to the extent shares of Series C Preferred Stock have not previously been converted), at the "Redemption Price" (as defined in Section 3(c)(iii) in each case pursuant to the procedures and on the terms and conditions set forth in this Section

3(c). Any holder of Series C Preferred Stock may accept or decline to redeem the shares, as provided below.

(ii) There shall not occur more than one (1) Option Date in any ninety (90) day period, except for any Option Date occurring between days 361-365 after the Closing Date, if applicable.

(iii) The "Redemption Price" shall be equal to 110% of the Liquidation Preference.

(iv) (A) If the Corporation elects to offer to permit holders to redeem Series C Preferred Stock pursuant to an Option, the Corporation shall, within two (2) Trading Days following the applicable Option Date, give written notice (a "Redemption Notice") to the holders of the Series C Preferred Stock that it will offer to redeem the "Applicable Percentage" of the Principal Amount of the Series C Preferred Stock pursuant to the Option. Such offer shall be held open for not less than fifteen (15) days from the date the Redemption Notice is received by the holder.

(B) If the Corporation may provide, but fails to provide, a timely Redemption Notice, the holders of the Series C Preferred Stock shall have the option, from and after the date on which such notice was due to be sent, to convert the number of shares of Series C Preferred Stock that such holders are entitled to convert at the Market Conversion Price to the extent provided under Section 3(a) and on the terms set forth in this Section 3(c).

(v) Notwithstanding anything to the contrary in this Section 3(c), the Option shall be terminated for the remainder of the time the Series C Preferred Stock are outstanding if the closing bid price for the Common Stock is greater than \$6.00 for 40 consecutive Trading Days; provided, however,

that the terms of Section 3(c)(vi) shall remain in full force and effect.

(vi) If the closing bid price of the Common Stock is less than \$1.50 for 10 consecutive Trading Days, the Corporation may, at its option elect either (a) on the first Trading Day following the conclusion of such 10 Trading Day period (the "Second Option Date") to offer to redeem all of the Series C Preferred Stock at the Redemption Price by sending a Redemption Notice pursuant to the procedures and on the terms and conditions set forth in this

Section 3(c); or (b) if the Corporation does not elect to offer to redeem pursuant to this Section 3(c)(vi) the Series C Preferred Stock on or before the Second Option Date, then the Corporation shall permit the holders of the Series C Preferred Stock to convert, without regard to the limitation contained in Section 3(a)(i), all of their Series C Preferred Stock into Common Stock at the Market Conversion Price, pursuant to the procedures and on the terms and conditions set forth in this Section 3(c).

(vii) Any Redemption Notice must be given by facsimile or by overnight courier to the holders of the Series C Preferred Stock. The Redemption Notice shall be addressed to each such shareholder at the facsimile number or address of such holder appearing on the books of the Corporation or given by such holder to the Corporation for the purpose of notice. The Redemption Notice shall state the Redemption Price and the number of shares of Series C Preferred Stock of such holder offered to be redeemed and shall offer to such holder the opportunity, for a period of not less than fifteen (15) Trading Days from the date the Redemption Notice is received by the holder, to surrender to the Corporation at the place designated in the Redemption Notice, or to an agent designated by the holder, such holder's certificate or certificates representing the shares to be redeemed. Each holder may accept or decline, in whole or in part, the Corporation's redemption offer within the time specified in the Redemption Notice; provided that the holder shall not be permitted to redeem any fractional shares. Each holder of shares of Series C Preferred Stock that elects to redeem its shares of Series C Preferred Stock shall surrender the certificate evidencing such shares to the Corporation (except that, if fewer shares of Series C Preferred Stock are outstanding than were offered for redemption due to the

holder's conversion of some or all of its outstanding shares of Series C Preferred Stock into Common Stock after the date of the Redemption Notice, then such number of shares shall be reduced to the number of such shares which are still outstanding) at the place designated in such notice, or to such holder's agent, and shall thereupon be entitled to receive payment of the Redemption Price. If less than all of the outstanding shares of Series C Preferred Stock are to be redeemed for any reason, then the Corporation shall offer to redeem a pro rata portion from each holder of Series C Preferred Stock according to the respective number of shares of Series C Preferred Stock held by such holder.

(viii) If the Corporation fails to register the Common Stock issuable upon conversion of the Series C Preferred Stock pursuant to the Registration Rights Agreement within one hundred and eighty (180) days of the Closing Date, each holder of Series C Preferred Stock shall have the right to require the corporation to redeem its Series C Preferred Stock at a price equal to 1.3 times (i.e., 130% of) the Liquidation Preference.

(ix) The Corporation shall issue an amount equal to the Redemption Price (as it may be adjusted as provided in this Section 3) to any holder who elects to redeem shares of Series C Preferred Stock, by wire transfer or in cash by overnight courier within three (3) business days of receipt by the Corporation or the holder's agent of certificates tendered for redemption, with delivery of certificates to be made by the holder's agent against delivery of the Redemption Price.

(x) Unless default shall be made by the Corporation in duly paying the Redemption Price, in which case all the rights of the holders of such shares shall continue, the holders of the shares of the Series C Preferred Stock sent to the Corporation by the holder for redemption shall cease to have any rights as shareholders of the Corporation relating to such shares, except (i) the right to receive the Redemption Price (as it may be adjusted as provided in this Section 3) and (ii) if less than all of the shares of Series C Preferred Stock represented by the certificate(s) surrendered by the holder for redemption are actually redeemed, the right to receive forthwith from the

Corporation a new certificate for the unredeemed shares, and the redeemed shares shall not thereafter be transferred (except with the written consent of the Corporation) on the books of the Corporation and shall not be deemed outstanding for any purpose whatsoever. The shares of Series C Preferred Stock not redeemed shall remain outstanding and entitled to all the rights and preferences provided herein.

(xi) There shall be no redemption of any shares of Series C Preferred Stock of the Corporation where such action would be in violation of applicable law.

(xii) Upon any redemption of Series C Preferred Stock pursuant to this Section 3(c), the shares of Series C Preferred Stock which are so redeemed shall not be reissued and, upon such redemption, the number of authorized shares of the series to which the shares of such Series C Preferred Stock belonged shall be reduced by the number of shares so redeemed.

(d) Automatic Conversion.

(i) Subject to Section 3(d)(ii) below, any Series C Preferred Stock held on the date which is the fifth (5th) anniversary of the Closing Date ("Automatic Conversion Date") shall be converted at the Conversion Price or the Market Conversion Price, as provided in Section 3(c), and the Corporation shall provide written notice to the holders of the Series C Preferred Stock at least 20 Trading Days prior to the Automatic Conversion Date, which notice shall certify that the conditions contained in Section 3(d)(ii)(A)-(C) have been satisfied as of the date of such notice, provided that such Automatic Conversion Date shall be deferred for such number of days as is equal to 1.5 times the number of days that (A) there is not an Effective Registration (as defined in the Investment Agreement), but not including the first 120 days after the Closing Date; (B) there is not a sufficient amount of Common Shares available for conversion of all outstanding Series C Preferred Stock; or (C) there is a suspension, restriction or limitation in the ability of holders of Series C Preferred Stock to sell Common Shares received upon conversion of Series C Preferred Stock under the Registration Statement and prospectus for any reason. As soon as possible after the Automatic Conversion Date, holders shall surrender the certificate or certificates representing the shares of Series C Preferred Stock being converted, duly endorsed, at the office of the Corporation or of any transfer agent for such shares, provided that the Corporation shall at all times maintain an office or agency in New York City (or within 60 miles thereof) for such purposes. The Corporation shall, within three (3) Trading Days of receipt of such duly endorsed certificate or certificates, issue and deliver, or cause its transfer agent to issue and deliver, to or upon the order of such holder, against delivery of the certificates representing the shares which have been converted, a certificate or certificates for the number of Common Shares to which such holder shall be entitled (with the number of and denomination of such certificates designated by such holder); the Corporation shall effect such issuance within three (3) Trading Days of the Automatic Conversion Date and shall transmit the certificates by messenger or overnight delivery service to reach the address designated by such holder within three (3) trading days after the receipt of such duly endorsed certificate or certificates ("T+3"). In the alternative to physical delivery of certificates for Common Shares, if delivery of the Common Shares pursuant to any conversion hereunder may be effectuated by electronic book-entry through Depository Trust Corporation ("DTC"), then delivery of Common Shares pursuant to such conversion shall, if requested by such holder, be closed and settled on T+3 by book-entry transfer through DTC, and the Common Shares in connection with such conversion shall be deemed delivered by such book-entry transfer. The parties agree to coordinate with DTC to accomplish this objective. The conversion pursuant to this

Section 3(d)(i) shall be deemed to have been made immediately prior to the close of business on the Automatic Conversion Date. The person or persons entitled to receive the Common Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Shares at the close of business on the Automatic Conversion Date.

(ii) Notwithstanding Section 3(d)(i), no automatic conversion shall take place unless and until each of the following conditions has been satisfied or exists, each of which shall be a condition precedent to any such automatic conversion:

(A) no material default or breach exists, and no event shall have occurred which constitutes (or would constitute with notice or the passage of time or both) a material default or breach of the Investment Agreement, the Registration Rights Agreement or the Amended Articles of Incorporation;

(B) none of the events described in clauses (i), (ii) and (iv) of Section 2(b) of the Registration Rights Agreement shall have occurred and be continuing;

(C) the Corporation and its direct and indirect subsidiaries on a consolidated basis have assets with a net realizable fair market value exceeding its liabilities and is able to pay all its debts as they become due in the ordinary course of business, and the Corporation is not and has not been subject to any liquidation, dissolution or winding up of its affairs; and

(e) Limitation on Shares Issuable on Conversion. The maximum number of shares of Common Stock issuable on conversion of the Series C Preferred Stock shall in no event be greater than the sum of

(i) 19.99% of the Common Stock outstanding on the Closing Date, and

(ii) the aggregate number of shares of Common Stock issued upon conversion of Series C Preferred Stock at a Conversion Price or Conversion Prices equal to or greater than the Closing Price (as adjusted for events described under Section 3(f)(i)) (the "Maximum Conversion Number"). At any time after the Maximum Conversion Number is reached, the conversion price of the Series C Preferred Stock shall be equal to or greater than the Closing Price (as adjusted for events described under Section 3(f)(i)). If the Maximum Conversion Number is less than the number of

shares of Common Stock that would have been issuable to the holders of the Series C Preferred Stock, or if the Conversion Price is greater than it would have been, but for this subsection (e), then the Corporation shall, within five (5) Trading Days of the date that the Maximum Conversion Number shall have been issued, offer to permit holders of the Series C Preferred Stock to redeem all of their remaining outstanding Series C Preferred Stock pursuant to the procedures set forth in Section 3(c), except that the Redemption Price shall be equal to 1.3 times (i.e., 130% of) the Liquidation Preference.

(f) Further Adjustments to Conversion Price and Market Conversion Price.

(i) In the event that during any period of consecutive Trading Days provided for above, the Corporation shall pay any dividend on the Common Stock payable in Common Stock or in rights to acquire Common Stock, or shall effect a stock split or reverse stock split, or a combination, consolidation or reclassification of the Common Stock, then the Conversion Price and/or the Market Conversion Price, as appropriate, shall be proportionately decreased or increased, as appropriate, to give effect to such event.

(ii) If at any time during the period ending twelve (12) months after the Closing Date, the Corporation sells securities convertible into, exercisable for, or exchangeable for, Common Stock (other than a sale pursuant to a bona fide registered public offering of Common Stock by the Corporation, and other than shares or options issued pursuant to the Corporation's employee, director or consultant stock option plans currently in force and other than sales of shares of Common Stock to underwriters) ("Convertible Private Placement"), then, if the effective or maximum sales price of the Common Stock into which such securities are convertible with respect to such transaction (including the effective or maximum conversion, exercise or exchange price) is less than 160% of the Closing Price (the "Reduced Conversion Price"), the Conversion Price or the Market Conversion Price, as appropriate, thereafter shall be equal to the lowest of the Reduced Conversion Price, the Market Conversion Price or the Conversion Price.

(iii) If the Corporation fails to register the Common Stock issuable upon conversion of the Series C Preferred Stock pursuant to the Registration Rights Agreement within

ninety (90) days following the Closing Date, the Conversion Price or the Market Conversion Price, as applicable, will be reduced by one percent (1%). If the Corporation fails to register the Common Stock issuable upon conversion of the Series C Preferred Stock within one hundred twenty (120) days following the Closing Date, the Conversion Price or the Market Conversion Price, as applicable, will be reduced by an additional one point five percent (1.5%). The Conversion Price or the Market Conversion Price, as applicable, will be further reduced by one point five percent (1.5%) for each successive thirty (30) day period that the Common Stock issuable upon conversion of the Series C Preferred Stock remain unregistered.

(g) Certificate for Conversion Price Adjustment. The Corporation shall, upon the written request at any time of any holder of Series C Preferred Stock, furnish or cause to be furnished to such holder a certificate prepared by the Corporation setting forth any adjustments or readjustments of the Conversion Price and the Market Conversion Price pursuant to this Section 3.

(h) Mechanics of Conversion. To convert Series C Preferred Stock into Common Shares, the holder shall give written notice ("Conversion Notice") to the Corporation in the form of page 1 of Exhibit A hereto (which Conversion Notice may be given by facsimile transmission) stating that such holder elects to convert the same and shall state therein the number of shares to be converted and the name or names in which such holder wishes the certificate or certificates for Common Shares to be issued (the date of such Conversion Notice shall be referred to herein as the "Conversion Date"). Either simultaneously with the delivery of the Conversion Notice, or within one (1) trading day thereafter, the holder shall deliver (which also may be done by facsimile transmission) page 2 to Exhibit A hereto indicating the computation of the number of Common Shares to be received. As soon as possible after delivery of the Conversion Notice, such holder shall surrender the certificate or certificates representing the shares being converted, duly endorsed, at the office of the Corporation or of any transfer agent for such shares, provided that the Corporation shall at all times maintain an office or agency in New York City (or within 60 miles thereof) for such purposes. The Corporation shall, within three (3) Trading Days of receipt of such Conversion Notice, issue and deliver, or cause its transfer agent to issue and deliver, to or upon the order of such holder, against delivery of the certificates representing the shares which have been converted, a certificate or certificates for the number of Common Shares to which such holder shall be entitled (with the number of and denomination of such certificates designated by such holder), and the Corporation shall, within three (3) Trading Days, issue and deliver, or cause its transfer agent

to issue and deliver, to such holder a certificate or certificates for the number of Series C Preferred Stock which such holder has not yet elected to convert hereunder but which are evidenced in part by the certificate(s) delivered to the Corporation in connection with such Conversion Notice; the Corporation shall effect such issuance within three (3) Trading Days of the Conversion Date and shall transmit the certificates by messenger or overnight delivery service to reach the address designated by such holder within three (3) trading days after the receipt of such Conversion Notice ("T+3"). In the alternative to physical delivery of certificates for Common Shares, if delivery of the Common Shares pursuant to any conversion hereunder may be effectuated by electronic book-entry through Depository Trust Corporation ("DTC"), then delivery of Common Shares pursuant to such conversion shall, if requested by such holder, be closed and settled on T+3 by book-entry transfer through DTC, and the Common Shares in connection with such conversion shall be deemed delivered by such book-entry transfer. The parties agree to coordinate with DTC to accomplish this objective. The conversion pursuant to this Section 3 shall be deemed to have been made immediately prior to the close of business on the Conversion Date. The person or persons entitled to receive the Common Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Common Shares at the close of business on the Conversion Date.

(i) Distributions. In the event the Corporation shall at any time or from time to time make or issue, or fix a record date for the determination of holders of Common Stock entitled to receive, a dividend or other distribution payable in securities of the Corporation or any of its direct or indirect subsidiaries other than additional Common Stock, then in each such event, in addition to the number of shares of Common Stock receivable upon conversion, provision shall be made so that the holders of Series C Preferred Stock shall receive, upon the conversion thereof, the securities of the Corporation or such subsidiary which they would have received had they been the owners on the date of such event of the number of shares of Common Stock issuable to them upon conversion. The Corporation shall, upon the written request at any time of any holder of Series C Preferred Stock, furnish or cause to be furnished to such holder a certificate prepared by the Corporation setting forth the number of other securities and the amount, if any, of other property which at the time would be received upon the conversion of Series C Preferred Stock with respect to each share of Common Stock received upon such conversion.

(j) Notice of Record Date. In the event of any taking by the Corporation of a record date of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend or other distribution, any security or right convertible into or entitling the holder thereof to receive additional shares of Common Stock, or any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Corporation shall deliver

to each holder of Series C Preferred Stock at least 20 days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution, security or right and the amount and character of such dividend, distribution, security or right.

(k) Issue Taxes. The Corporation shall pay any and all issue and other taxes, excluding any income, franchise or similar taxes, that may be payable in respect of any issue or delivery of Common Shares on conversion of Series C Preferred Stock pursuant hereto.

(l) Reservation of Stock Issuable Upon Conversion. The Corporation shall at all times reserve and keep available out of its authorized but unissued Common Stock, solely for the purpose of effecting the conversion of the Series C Preferred Stock, such number of Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding Series C Preferred Stock (subject to the limitations on conversion set forth in Section 3(e)), and if at any time the number of authorized but unissued Common Shares shall not be sufficient to effect the conversion of all the then outstanding Series C Preferred Stock, the Corporation will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued Common Shares to such number of shares as shall be sufficient for such purpose, including without limitation engaging in best efforts to obtain the requisite shareholder approval. Without in any way limiting the foregoing, so long as any Series C Preferred Stock remain outstanding the Corporation agrees to reserve and at all times keep available solely for purposes of conversion of Series C Preferred Stock such number of authorized but unissued Common Shares that is set forth in the Investment Agreement.

(m) Fractional Shares. No fractional shares shall be issued upon the conversion of any Series C Preferred Stock. All Common Shares (including fractions thereof) issuable upon conversion of more than one Preferred Share by a holder thereof shall be aggregated for purposes of determining whether the conversion would result in the issuance of any fractional share. If, after the aforementioned aggregation, the conversion would result in the issuance of a fraction of a share of Common Stock, the Corporation shall, in lieu of issuing any fractional share, pay the holder otherwise entitled to such fraction a sum in cash equal to the fair market value of such fraction on the Conversion Date (as determined in good faith by the Board of Directors of the Corporation).

(n) Reorganization or Merger; Going Private. A "Qualifying Acquisition" shall be defined as any reorganization, consolidation or merger of the Corporation with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Corporation to any other person in which the holders of Series C Preferred Stock receive for each share of Series C Preferred Stock either (i) consideration in cash in an amount equal to or greater than \$6.00, (ii) publicly

traded securities (or fractions thereof) of a corporation with a market capitalization greater than \$500 million as of the effective date of such transaction ("Qualifying Public Stock") and with an average closing price ("Average Price") over the twenty (20) Trading Days prior to the effective date of such transaction equal to or greater than \$6.00, or

(iii) a combination of cash and Qualifying Public Stock with a value (based upon the Average Price) greater than \$6.00. In case of any reorganization or any reclassification of the capital stock of the Corporation or any consolidation or merger of the Corporation with or into any other corporation or corporations or a sale of all or substantially all of the assets of the Corporation to any other person, then, as part of such a reorganization, consolidation, merger or sale, if the holders of Common Shares receive any publicly traded securities as part or all of the consideration for such a reorganization, consolidation, merger or sale, then provision shall be made such that each Preferred Share shall thereafter be convertible into such new securities at a conversion price which places the holders of Series C Preferred Stock in an economically equivalent position as they would have been if such holders had converted all of their Series C Preferred Stock immediately prior to such event. In addition to the foregoing, if the holders of Common Shares receive any non-publicly traded securities or other property or cash as part or all of the consideration for such reorganization, consolidation, merger or sale, then in such event provision shall be made so that the holders of the Series C Preferred Stock shall receive, without being required to convert their shares, an amount of such securities, property or cash that they would have been entitled to receive had they converted their shares of Series C Preferred Stock on the date that the holders of Common Shares become entitled to receive such securities property or cash. So long as any Series C Preferred Stock are outstanding, the Corporation shall not close any such reorganization, consolidation, merger or sale other than a Qualifying Acquisition, unless an appropriate adjustment of the conversion price and other provisions contained herein related to the conversion of such Series C Preferred Stock is approved by an affirmative vote of a majority in interest of the holders of outstanding Series C Preferred Stock and reflected in an amendment to this Certificate of Determination, which is duly approved by all necessary corporate action, including any necessary shareholder approval. The Corporation shall not close any transaction or series of transactions as a result of which the Common Shares would cease to be publicly traded (other than an acquisition in which publicly traded securities are issued) unless approved by an affirmative vote of a majority in interest of the holders of Series C Preferred Stock.

(o) Specific Enforcement. The Corporation agrees that irreparable damage would occur in the event that any of the provisions of this Certificate of Determination were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the holders of Series C Preferred Stock shall be entitled to specific performance, injunctive relief or other equitable remedies to prevent or cure breaches of the provisions of this Certificate of Determination and to enforce specifically the terms and provisions hereof, this

being in addition to any other remedy to which any of them may be entitled under agreement, at law or in equity.

Section 4. Ranking. The Series C Preferred Stock shall be senior to the Series A Preferred Stock, and senior to the Series B Preferred Stock with respect to dividends and liquidation preferences and to all later authorized Series of the Corporation's preferred stock as to the distribution of assets.

Section 5. Voting Rights. The affirmative vote of a majority in interest of the Corporation's outstanding Series C Preferred Stock shall be necessary for

(i) any amendment of this Certificate of Determination, (ii) any other amendment to the Articles of Incorporation or by-laws of the Corporation that may adversely affect any of the rights, preferences, or privileges of the Series C Preferred Stock, (iii) any reorganization or reclassification of the capital stock of the Corporation, any consolidation or merger of the Corporation with or into any other corporation or corporations, or any sale of all or substantially all of the assets of the Corporation, other than a Qualifying Acquisition, that would have an adverse effect on any of the rights, preferences, or privileges of the Series C Preferred Stock.

Section 6. Notices. The Corporation shall distribute to the holders of Series C Preferred Stock copies of all notices, materials, annual and quarterly reports, proxy statements, information statements and any other documents distributed generally to the holders of shares of Common Stock of the Corporation, at such times and by such method as such documents are distributed to such holders of such Common Stock.

Section 7. Replacement Certificates. The certificate(s) representing the Series C Preferred Stock held by any holder of Series C Preferred Stock may be exchanged by such holder at any time and from time to time for certificates with different denominations representing an equal aggregate number of Series C Preferred Stock, as reasonably requested by such holder, upon surrendering the same. No service charge will be made for such registration or transfer or exchange.

Section 8. No Reissuance. No Series C Preferred Stock acquired by the Corporation by reason of redemption, purchase, conversion or otherwise shall be reissued.

2. There are no shares of Series A Preferred Stock or Series B Preferred Stock outstanding.

IN WITNESS WHEREOF, we have executed and subscribed this Certificate and do affirm the foregoing as true under the penalties of perjury this ___ day of March, 1998 under the laws of the State of California.

Donald R. Sellers President

Shawn K. Singh Assistant Secretary

EXHIBIT A

(To be Executed by Holder

in order to Convert Series C Preferred Stock)

**CONVERSION NOTICE
FOR
SERIES C CONVERTIBLE PREFERRED STOCK**

The undersigned, as a holder ("Holder") of shares of Series C Convertible Preferred Stock ("Series C Preferred Stock") of SciClone Pharmaceuticals, Inc. (the "Corporation"), hereby irrevocably elects to convert _____ shares of Series C Preferred Stock for shares ("Common Shares") of common stock, no par value (the "Common Stock"), of the Corporation according to the terms and conditions of the Amended Articles of Incorporation as of the date written below. The undersigned hereby requests that share certificates for the Common Stock to be issued to the undersigned pursuant to this Conversion Notice be issued in the name of, and delivered to, the undersigned or its designee as indicated below. No fee will be charged to the holder of Series C Preferred Stock for any conversion. Capitalized terms used herein and not otherwise defined shall have the meanings ascribed thereto in the Certificate of Determination Regarding the Terms of the Series C Preferred Stock.

Conversion Date: _____

Conversion Information:

NAME OF HOLDER: _____

By: _____ Print Name:

Print Title:

Print Address of Holder:

at: _____

If Common Stock is to be issued to a person other than Holder, Holder's signature must be guaranteed below:

SIGNATURE GUARANTEED BY:

THE COMPUTATION OF NUMBER OF COMMON SHARES TO BE RECEIVED IS SET FORTH

ON PAGE 2 OF THE CONVERSION NOTICE.

Page 2 to Conversion Notice dated _____ for: _____

(Conversion Date) (Name of Holder)

COMPUTATION OF NUMBER OF COMMON SHARES TO BE RECEIVED

Number of Shares of Series C Preferred Stock being converted: _____ shares

Number of Shares of Series C Preferred Stock being converted x Liquidation Preference \$ _____

Total dollar amount being converted \$ _____

Conversion Price \$ _____

Number of Common Shares = Total dollar amount being converted \$ _____ divided by Conversion Price \$ _____

Number of Common Shares = _____

If the conversion is not being settled by DTC, please issue and deliver _____ certificate(s) for Common Shares in the following amount(s):

If the Holder is receiving certificate(s) for Series C Preferred Stock upon the conversion, please issue and deliver _____ certificate(s) for Series C Preferred Stock in the following amounts:

PREFERRED STOCK INVESTMENT AGREEMENT

THIS PREFERRED STOCK INVESTMENT AGREEMENT ("Agreement") is dated as of March 27, 1998 between SciClone Pharmaceuticals, Inc., a California corporation ("SciClone"), Halifax Fund, L.P., Themis Partners L.P. and Heracles Fund (individually, an "Investor," and collectively, (the "Investors").

WITNESSETH:

WHEREAS, SciClone desires to sell and issue to the Investors, and the Investors wish to purchase from SciClone, an aggregate of 661,157 shares of SciClone's Series C Convertible Preferred Stock, no par value, having the rights, designations and preferences set forth in the Certificate of Determination of SciClone (the "Certificate of Determination") in the identical form and substance of Exhibit 2.1(c) attached hereto (the "Preferred Shares"), on the terms and conditions set forth herein; and

WHEREAS, the Preferred Shares will be convertible into shares ("Common Shares") of common stock, no par value, of SciClone ("Common Stock"), pursuant to the terms of the Certificate of Determination, and the Investors will have registration rights with respect to such Common Shares issuable upon conversion, pursuant to the terms of that certain Registration Rights Agreement to be entered into between SciClone and the Investors substantially in the form of Exhibit 4.2(f) hereto ("Registration Rights Agreement"); and

WHEREAS, to induce the Investors to purchase the Preferred Shares, SciClone has agreed to issue to each Investor a Warrant in the form attached as Exhibit A (individually, a "Warrant," and collectively, the "Warrants");

NOW, THEREFORE, in consideration of the foregoing premises and the covenants contained herein and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

PURCHASE AND SALE OF PREFERRED STOCK

Section 1.1 Purchase and Sale of Preferred Stock. Upon the following terms and conditions, SciClone shall issue and sell to the Investors, and the Investors shall purchase from SciClone, an aggregate of 661,157 Preferred Shares. Each Investor shall purchase the number of Preferred Shares listed opposite such Investor's name on the Schedule of Purchasers attached as Exhibit

1.1. hereto.

Section 1.2 Purchase Price. The aggregate purchase price for the Preferred Shares (the "Purchase Price") shall be \$4,000,000, or \$6.05 per share. Each Investor shall pay the aggregate purchase price listed opposite such Investor's name on the Schedule of Purchasers attached as Exhibit 1.1 hereto.

Section 1.3 The Closing.

(a) The closing of the purchase and sale of the Preferred Shares (the "Closing"), shall take place at the offices of the Investors' counsel, at 10:00 a.m., local time on the later of the following: (i) the date on which the last to be fulfilled or waived of the conditions set forth in Article IV hereof and applicable to the Closing shall be fulfilled or waived in accordance herewith, or (ii) such other time and place and/or on such other date as the Investors and SciClone may agree. The date on which the Closing occurs is referred to herein as the "Closing Date."

(b) On the Closing Date, SciClone shall deliver to each Investor

(i) certificates (with the number of and denomination of such certificates as reasonably requested by each Investor, representing the Preferred Shares purchased hereunder by such Investor registered in the name of such Investor or its nominee or deposit such Preferred Shares into accounts designated by such Investors and (ii) a Warrant to purchase the number of shares of Common Stock listed opposite such Investor's name on the Schedule of Warrants attached as Exhibit 1.3 hereto, registered in the name of such Investor or its nominee in such denominations as reasonably requested by such Investor, and each Investor shall deliver to SciClone such Investor's share of the Purchase Price for the number of Preferred Shares purchased by such Investor hereunder by wire transfer in immediately available funds to an account designated in writing by SciClone. In addition, each party shall deliver all documents, instruments and writings required to be delivered by such party pursuant to this Agreement at or prior to the Closing.

Section 1.4. Additional Shares of Common Stock. In connection with a conversion by an Investor of any Preferred Shares, if the Market Conversion Price (as defined in the Certificate of Determination) with respect to a Conversion Date (as defined in the Certificate of Determination) shall be greater than \$6.00, subject to adjustment from time to time as set forth in

Section 3 of the Certificate of Determination, then, in addition to and not in lieu of the shares of Common Stock issuable by reason of any Conversion Notice (as defined in the Certificate of Determination) given by an Investor on such Conversion Date or by reason of forced conversion pursuant to Section 3(d) of the Certificate of Determination, an Investor may, by written notice to SciClone on the Conversion Date, purchase from SciClone, at a price per share equal to the Market Conversion Price, up to one (1) share of Common Stock (each an "Additional Share" and, collectively, with all such other shares so purchased and sold hereunder, "Additional Shares") for each share of Common Stock issuable to such Investor by reason of any Conversion Notice given by such Investor on such Conversion Date or by reason of forced conversion pursuant to Section 3(d) of the Certificate of Determination, and failure to exercise the right to purchase Additional Shares on the Conversion Date shall result in immediate forfeiture of such right as to such Additional Shares and such Conversion Date. The total price for such Additional Shares so to be issued incident to such a Conversion Notice or forced conversion shall be paid by such Investor by wire transfer of immediately available federal funds to such account as SciClone shall specify in writing to such holder, or, at such Investor's election, to an account of an agent designated by such Investor, and upon receipt, by SciClone, or such agent, of such payment, SciClone shall

promptly and in no event later than three (3) business days thereafter issue the certificate or certificates therefor pursuant to this Section 1.4, with release of the funds from the agent to SciClone to be made against delivery of such certificate or certificates. In the alternative to physical delivery of certificates for Common Shares, if delivery of the Additional Shares pursuant to any conversion hereunder may be effectuated by electronic book-entry through Depository Trust Corporation ("DTC"), then delivery of Additional Shares pursuant to such conversion shall, if requested by such holder, be closed and settled on T+3 by book-entry transfer through DTC, and the Additional Shares in connection with such conversion shall be deemed delivered by such book-entry transfer. The parties agree to coordinate with DTC to accomplish this objective. The conversion pursuant to Section 3 of the Certificate of Determination shall be deemed to have been made immediately prior to the close of business on the Conversion Date. The person or persons entitled to receive the Additional Shares issuable upon such conversion shall be treated for all purposes as the record holder or holders of such Additional Shares at the close of business on the Conversion Date.

Section 1.5 Limitation on Holder's Right to Convert. Notwithstanding anything to the contrary contained herein, no Preferred Share may be converted by a holder to the extent that, after giving effect to Common Shares to be issued pursuant to a Conversion Notice, the total number of Common Shares deemed beneficially owned by such holder (other than by virtue of the ownership of Series C Preferred Stock or ownership of other securities that have limitations on a holder's rights to convert or exercise similar to those limitations set forth herein), together with all Common Shares deemed beneficially owned by the holder's "affiliates" (as defined in Rule 144 of the Act) that would be aggregated for purposes of determining whether a group under Section 13(d) of the Securities Exchange Act of 1934 exists, would exceed 4.9% of the total issued and outstanding shares of the Corporation's Common Stock, provided that each holder shall have the right to waive this restriction, in whole or in part, upon 61 days prior notice to SciClone. The delivery of a Conversion Notice by any holder shall be deemed a representation by such holder that it is in compliance with this Section 1.5. A transferee of the Series C Preferred Stock shall not be bound by this provision unless it expressly agrees to be so bound. The term "deemed beneficially owned" as used in this Agreement shall exclude shares that might otherwise be deemed beneficially owned by reason of the convertibility of the Series C Preferred Stock.

ARTICLE II

REPRESENTATIONS AND WARRANTIES

Section 2.1 Representations and Warranties of SciClone. SciClone hereby makes the following representations and warranties to the Investors as of the date hereof and on the Closing Date except as disclosed in the Schedule of Exceptions hereto:

(a) Organization and Qualification; Material Adverse Effect. SciClone is a corporation duly incorporated and existing in good standing under the laws of the State of California and has the requisite corporate power to own its properties and to carry on its business as now being conducted. SciClone does not have any direct or indirect subsidiaries other than the subsidiaries listed on Schedule 2.1(a) attached hereto. A "subsidiary" of SciClone is any company of which more than 50% of the voting shares are owned by SciClone. SciClone is duly qualified as a foreign corporation to do business and is in good standing in every jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary other than those in which the failure so to qualify would not have a Material Adverse Effect. "Material Adverse Effect" means any adverse effect on the business, operations, properties, prospects, or financial condition of the entity with respect to which such term is used and which is material to such entity and other entities controlling or controlled by such entity taken as a whole, and any material adverse effect on the transactions contemplated under this Agreement, the Registration Rights Agreement or any other agreement or document contemplated hereby or thereby.

(b) Authorization; Enforcement. (i) SciClone has the requisite corporate power and authority to enter into and perform this Agreement, the Warrants and the Registration Rights Agreement and to issue the Preferred Shares in accordance with the terms hereof, (ii) the execution and delivery of this Agreement, the Warrants and the Registration Rights Agreement by SciClone and the consummation by it of the transactions contemplated hereby and thereby, including the issuance of the Preferred Shares, and the amendment provided for in the Certificate of Determination, have been duly authorized by all necessary corporate action, and no further consent or authorization of SciClone or its Board of Directors or shareholders is required, (iii) this Agreement and the Registration Rights Agreement and the Warrants have been or will have been duly executed and delivered by SciClone, and (iv) this Agreement and the Registration Rights Agreement and the Warrants constitute valid and binding obligations of SciClone enforceable against SciClone in accordance with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of creditors' rights and remedies or by other equitable principles of general application.

(c) Capitalization. The authorized capital stock of SciClone consists of 75,000,000 shares of common stock and 10,000,000 shares of preferred stock; there are 17,348,108 shares of common stock issued and outstanding as of March 15, 1998 and no shares of preferred stock issued and outstanding. All of the outstanding shares of SciClone's common stock have been validly issued and are fully paid and nonassessable. No Common Shares are entitled to preemptive rights; as of March 15, 1998, 3,650,211 Common Shares have been reserved for issuance upon the exercise of options granted or to be granted under stock option plans and 471,505 shares have been reserved for issuance under employee stock purchase plans, and there are no outstanding warrants for Common Shares (excluding the Warrant). There are no other scrip, rights to subscribe to, calls or commitments of any character whatsoever relating to,

or securities or rights exchangeable or convertible into, any shares of capital stock of SciClone, or contracts, commitments, understandings or arrangements by which SciClone is or may become bound to issue additional shares of capital stock of SciClone or options, warrants, scrip, rights to subscribe to, or commitments to purchase or acquire, any shares, or securities or rights convertible into shares, of capital stock of SciClone (except as contemplated by this Agreement or disclosed in the SEC Documents (as defined below)). No holders of SciClone stock (other than the Investor) are entitled to registration rights. Attached hereto as Exhibit 2.1(b) are true and correct copies of SciClone's Articles of Incorporation (the "Charter") as in effect on the date hereof, and SciClone has furnished or made available to the Investor true and correct copies of SciClone's By-Laws, as in effect on the date hereof (the "By-Laws"). The Certificate of Determination has been duly filed in the State of California.

(d) Issuance of Common Shares. The Common Shares issuable upon conversion of the Preferred Shares pursuant to the Certificate of Determination (the "Underlying Shares") or upon the exercise of the Warrants (the "Warrant Shares") are duly authorized and reserved for issuance and, upon such conversion in accordance with the Certificate of Determination and/or exercise in accordance with the Warrants, such Underlying Shares and Warrant Shares will be validly issued, fully paid and non-assessable, free and clear of any and all liens, claims and encumbrances, and such Underlying Shares and Warrant Shares when registered under an effective registration statement under the Securities Act and authorized for trading under the rules of the Nasdaq National Market System (as defined below) will be entitled to be traded on the National Association of Securities Dealers Automated Quotation system National Market ("Nasdaq National Market System"), and the holders of such Underlying Shares and Warrant Shares shall be entitled to all rights and preferences accorded to a holder of Common Shares. The outstanding Common Shares are currently quoted on the Nasdaq National Market System.

(e) No Conflicts. The execution, delivery and performance of this Agreement and the Registration Rights Agreement and the Warrants by SciClone and the consummation by SciClone of the transactions contemplated hereby and thereby and the filing of the Certificate of Determination do not and will not (i) result in a violation of SciClone's Charter or By-Laws or (ii) conflict with, or constitute a default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture, patent, patent license or instrument to which SciClone or any of its subsidiaries is a party, or result in a violation of any federal, state, local or foreign law, rule, regulation, order, judgment or decree (including Federal and state securities laws and regulations) applicable to SciClone or any of its subsidiaries or by which any property or asset of SciClone or any of its subsidiaries is bound or affected (except for such conflicts, defaults, terminations, amendments, accelerations, cancellations and violations as would not, individually or in the aggregate, have a Material Adverse Effect); provided that, for purposes of such representation as to Federal, state, local or foreign law, rule or regulation, no representation is made herein with respect to any of the same applicable solely to the Investor and not to SciClone. The business of SciClone and its direct and indirect subsidiaries is not being conducted in violation of any law, ordinance

or regulation of any governmental entity, except for violations which either singly or in the aggregate do not and will not have a Material Adverse Effect. Except for the Certificate of Determination SciClone is not required under Federal, state, local or foreign law, rule or regulation to obtain any consent, authorization or order of, or make any filing or registration with, any court or governmental agency in order for it to execute, deliver or perform any of its obligations under this Agreement and the Registration Rights Agreement and the Certificate of Determination and the Warrants, or issue and sell the Preferred Shares in accordance with the terms hereof and issue the Underlying Shares upon conversion thereof and issue the Warrant Shares on exercise of the Warrants, except for the registration provisions provided in the Registration Rights Agreement, provided that, for purposes of the representation made in this sentence, SciClone is assuming and relying upon the accuracy of the relevant representations and agreements of the Investor herein.

(f) SEC Documents; Financial Statements. The Common Stock of SciClone is registered pursuant to Section 12(g) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and SciClone has filed all reports, schedules, forms, statements and other documents required to be filed by it with the Securities and Exchange Commission ("SEC") pursuant to the reporting requirements of the Exchange Act, including material filed pursuant to Section 13(a) or 15(d), in addition to one or more registration statements and amendments thereto heretofore filed by SciClone with the SEC (all of the foregoing including filings incorporated by reference therein being referred to herein as the "SEC Documents"). SciClone has delivered or made available to the Investors true and complete copies of all SEC Documents (including, without limitation, proxy information and solicitation materials and registration statements) filed with the SEC since December 31, 1995 and all annual SEC Documents filed with the SEC since December 31, 1994. SciClone has not provided to the Investors any material non-public information or any information which, according to applicable law, rule or regulation, should have been disclosed publicly by SciClone but which has not been so disclosed. As of their respective dates, SciClone's Form 10-K for the year ended December 31, 1996, and all documents subsequently filed with the SEC (the "Current Filings"), together with SciClone's fourth quarter 1997 earnings press release, dated February 2, 1998, complied in all material respects with the requirements of the Exchange Act and the rules and regulations of the SEC promulgated thereunder and other federal, state and local laws, rules and regulations applicable to such Current Filings, and none of the Current Filings contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The Current Filings contain all material information concerning SciClone, and no event or circumstance has occurred which would require SciClone to disclose such event or circumstance in order to make the statements in the Current Filings, taken as a whole, not misleading on the date hereof or on the Closing Date but which has not been so disclosed. The financial statements of SciClone included in the Current Filings complied as to form in all material respects with applicable accounting requirements and the published rules and regulations of the SEC or other applicable rules and regulations with respect thereto at the time of filing. Such financial statements were prepared in accordance with

generally accepted accounting principles applied on a consistent basis during the periods involved (except (i) as may be otherwise indicated in such financial statements or the notes thereto or (ii) in the case of unaudited interim statements, to the extent they may not include footnotes or may be condensed or summary statements) and fairly present in all material respects the financial position of SciClone as of the dates thereof and the results of operations and cash flows for the periods then ended (subject, in the case of unaudited statements, to normal year-end audit adjustments).

(g) Principal Exchange/Market. The principal market on which the Common Shares are currently traded is the Nasdaq National Market System.

(h) No Material Adverse Change. Since December 31, 1996, the date through which the most recent report of SciClone on Form 10-K has been prepared and filed with the SEC, a copy of which is included in the SEC Documents, no Material Adverse Effect has occurred or exists with respect to SciClone or its subsidiaries, except as otherwise disclosed or reflected in other SEC Documents filed or press releases issued as of a date subsequent to December 31, 1996.

(i) No Undisclosed Liabilities. SciClone and its direct and indirect subsidiaries have no liabilities or obligations not disclosed in the SEC Documents, other than those liabilities incurred in the ordinary course of SciClone's or its subsidiaries' respective businesses since December 31, 1996, which liabilities, individually or in the aggregate, do not or would not have a Material Adverse Effect on SciClone or its direct or indirect subsidiaries.

(j) No Undisclosed Events or Circumstances. No event or circumstance has occurred or exists with respect to SciClone or its direct or indirect subsidiaries or their respective businesses, properties, prospects, operations or financial condition, which, under applicable law, rule or regulation, requires public disclosure or announcement by SciClone but which has not been so publicly announced or disclosed.

(k) No General Solicitation. Neither SciClone, nor any of its affiliates, or, to its knowledge, any person acting on its or their behalf has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act of 1933, as amended (the "Act")) in connection with the offer or sale of the Preferred Shares or Common Shares.

(l) No Integrated Offering. Neither SciClone, nor any of its affiliates, nor to its knowledge any person acting on its or their behalf has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under circumstances that would require registration of the Preferred Shares under the Act.

(m) Form S-3. SciClone is eligible to file the Registration Statement (as defined in the Registration Rights Agreement) on Form S-3 under the Act and rules promulgated thereunder, and Form S-3 is permitted to be used for the resale by the

Investor to the public of the Registrable Securities (as defined in the Registration Rights Agreement) under the Act and rules promulgated thereunder.

(n) Intellectual Property. SciClone (and/or its wholly-owned subsidiaries) owns or has licenses to use certain patents, copyrights and trademarks ("intellectual property") associated with its business. SciClone and its subsidiaries have all intellectual property rights which are needed to conduct the business of SciClone and its subsidiaries as it is now being conducted or as proposed to be conducted as disclosed in the SEC Documents. SciClone and its subsidiaries have no reason to believe that the intellectual property rights which it owns are invalid or unenforceable or that the use of such intellectual property by SciClone or its subsidiaries infringes upon or conflicts with any right of any third party, and neither SciClone nor any of its subsidiaries has received notice of any such infringement or conflict. SciClone and its subsidiaries have no knowledge of any infringement of its intellectual property by any third party.

(o) No Litigation. No litigation or claim (including those for unpaid taxes) against SciClone or any of its subsidiaries is pending or, to SciClone's knowledge, threatened, and no other event has occurred, which if determined adversely would have a Material Adverse Effect on SciClone or would materially adversely effect the transactions contemplated hereby.

(p) Brokers. SciClone has taken no action that would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments by any Investor relating to this Agreement or the transactions contemplated hereby.

Section 2.2 Representations and Warranties of the Investors. The Investors hereby make the following representations and warranties to SciClone as of the date hereof and on the Closing Date:

(a) Authorization; Enforcement. (i) The Investors have the requisite power and authority to enter into and perform this Agreement and the Registration Rights Agreement and to purchase the Preferred Shares being sold hereunder and to acquire the Warrant Shares, (ii) the execution and delivery of this Agreement and the Registration Rights Agreement by the Investors and the consummation by each of them of the transactions contemplated hereby and thereby have been duly authorized by all necessary partnership or other action, and (iii) this Agreement and the Registration Rights Agreement constitute valid and binding obligations of the Investors enforceable against the Investors in accordance

with their terms, except as such enforceability may be limited by applicable bankruptcy, insolvency, reorganization, moratorium, liquidation or similar laws relating to, or affecting generally the enforcement of creditors' rights and remedies or by other equitable principles of general application.

(b) No Conflicts. The execution, delivery and performance of this Agreement and the Registration Rights Agreement and the Warrant and the consummation by the Investors of the transactions contemplated hereby and thereby do not and will not (i) result in a violation of the Investors' organizational documents, or (ii) conflict with any agreement, indenture or instrument to which any of the Investors is a party, or (iii) result in a violation of any law, rule, or regulation, or any order, judgment or decree of any court or governmental agency applicable to any of the Investors. The Investors are not required to obtain any consent or authorization of any governmental agency in order for it to perform its obligations under this Agreement or the Registration Rights Agreement or the Warrants.

(c) Investment Representation. Each Investor is purchasing the Preferred Shares and acquiring such Investor's Warrant for its own account and not with a view to distribution in violation of any securities laws. Each Investor has no present intention to sell the Preferred Shares, such Investor's Warrant, Underlying Shares or Warrant Shares and each Investor has no present arrangement (whether or not legally binding) to sell the Preferred Shares, such Investor's Warrant, Underlying Shares or Warrant Shares to or through any person or entity; provided, however, that by making the representations herein, each Investor does not agree to hold the Preferred Shares, such Investor's Warrant, Underlying Shares or Warrant Shares for any minimum or other specific term and reserves the right to dispose of the Preferred Shares, the Warrants, Underlying Shares or Warrant Shares at any time in accordance with Federal and state securities laws applicable to such disposition. Each Investor is not the Beneficial Owner (as defined in the Rights Agreement) of more than 4.9% of SciClone's "common shares" (as defined in the Rights Agreement), including all "common shares" which are aggregated with those of the Investor pursuant to a Schedule 13D filed under Section 13 (d) of the Securities Exchange Act of 1934.

(d) Accredited Investor. Each Investor is an "accredited investor" as defined in Rule 501 promulgated under the Act. Each Investor has such knowledge and experience in financial and business matters in general and investments in particular, so that each Investor is able to evaluate the merits and risks of an investment in the Preferred Shares and to protect its own interests in connection with such investment. In addition (but without limiting the effect of SciClone's representations and warranties contained herein), each Investor has received such information as it considers necessary or appropriate for deciding whether to purchase the Preferred Shares pursuant hereto.

(e) Rule 144. Each Investor understands that there is no public trading market for the Preferred Shares, that none is expected to develop, and that the Preferred Shares and Underlying Shares must be held indefinitely unless such Preferred Shares or Underlying Shares are converted or registered under the Act or an exemption from

registration is available. Each Investor has been advised or is aware of the provisions of Rule 144 promulgated under the Act.

(f) Brokers. Each Investor has taken no action that would give rise to any claim by any person for brokerage commissions, finder's fees or similar payments by SciClone relating to this Agreement or the transactions contemplated hereby.

(g) No Solicitation. No Investor was not contacted by SciClone or any agent or representative of SciClone in connection with the offering of Common Stock made pursuant to SciClone's registration statement on Form S-3 filed with the SEC on October 27, 1997.

(h) Reliance by SciClone. No Investor has not traded since March 1, 1998, and will not trade until the Closing Date, in the public market for SciClone stock or derivatives thereof. Each Investor understands that the Preferred Shares are being, and the Underlying Shares will be, offered and sold and the Warrants are being issued in reliance on a transactional exemption from the registration requirements of Federal and state securities laws and that SciClone is relying upon the truth and accuracy of the representations, warranties, agreements, acknowledgments and understandings of each Investor set forth herein in order to determine the applicability of such exemptions and the suitability of such Investor to acquire the Preferred Shares, the Underlying Shares and such Investor's Warrant.

ARTICLE III

COVENANTS

Section 3.1 Registration and Listing; Effective Registration. Until such time as no Preferred Shares or Warrants are outstanding, SciClone will cause the Common Shares to continue to be registered under Section 12(g) of the Exchange Act, will comply in all respects with its reporting and filing obligations under the Exchange Act, and will not take any action or file any document (whether or not permitted by the Exchange Act or the rules thereunder) to terminate or suspend such reporting and filing obligations. Until such time as no Preferred Shares or Warrants are outstanding, SciClone shall continue the listing or trading of the Common Shares on the Nasdaq National Market System and comply in all respects with SciClone's reporting, filing and other obligations under the bylaws or rules of the Nasdaq National Market System and any exchange or market where the Common Shares are then traded. SciClone shall cause the Underlying Shares and the Warrant Shares to be listed on the Nasdaq National Market System and in addition on such other markets (e.g., the New York Stock Exchange or the American Stock Exchange) on which the Common Shares are then trading prior to the earlier of (i) the registration of the Underlying Shares or the Warrant Shares under the Act or (ii) 90 days after the Closing hereunder, and shall continue such listing(s) in accordance with SciClone's obligations under the Registration Rights Agreement. As used herein and in the Registration Rights Agreement, the Certificate of Determination, and the Warrants, the

term "Effective Registration" shall mean that all registration obligations of SciClone pursuant to the Registration Rights Agreement have been satisfied, such registration is not subject to any suspension or stop order, the prospectus for the Underlying Shares issuable upon conversion of the Preferred Shares and the Warrant Shares issuable upon exercise of the Warrants is current and such Common Shares are listed for trading on the Nasdaq National Market System, and in addition on such other markets (e.g., the New York Stock Exchange or the American Stock Exchange) on which the Common Shares are then trading, and such trading has not been suspended for any reason, and none of SciClone or any direct or indirect subsidiary of SciClone is subject to any bankruptcy, insolvency or similar proceeding.

Section 3.2 Certificates on Conversion and Warrants on Exercise.

(a) Upon any conversion by an Investor (or the holder of Preferred Shares) of the Preferred Shares pursuant to the Certificate of Determination, SciClone shall issue and deliver to such Investor (or holder) within three (3) business days of the Conversion Date (as defined in the Certificate of Determination) a new certificate or certificates for the number of Preferred Shares which such Investor (or holder) has not yet elected to convert but which are evidenced in part by the certificate(s) submitted to SciClone in connection with such conversion (with the number of and denomination of such new certificate(s) designated by such Investor or holder).

(b) Upon any partial exercise by an Investor (or the holder of a Warrant) of a Warrant, SciClone shall issue and deliver to such Investor (or holder) within three (3) business days of the date on which such Warrant is exercised a new Warrant or Warrants representing the number of adjusted Warrant Shares, in accordance with the terms of Section 2 of such Warrant.

Section 3.3 Replacement Certificates and Warrants.

(a) The certificate(s) representing the Preferred Shares held by an Investor (or the holder) may be exchanged by such Investor (or such holder) at any time and from time to time for certificates with different denominations representing an equal aggregate number of Preferred Shares, as reasonably requested by such Investor (or such holder) upon surrendering the same. No service charge will be made for such registration or transfer or exchange.

(b) The Warrants are exchangeable at the option of an Investor (or then holder of a Warrant) at the office of SciClone for another Warrant of different denominations entitling the holder thereof to purchase in the aggregate the same number of Warrant Shares as are purchasable under such Warrant as reasonably requested by such Investor (or such holder) upon surrendering the same. No service charge will be made for such transfer or exchange.

Section 3.4 Expenses. SciClone shall pay, at the Closing and promptly upon receipt of any further invoices relating to same, all reasonable due diligence fees and expenses and reasonable attorneys' fees and expenses up to a maximum amount of \$10,000, incurred by the Investors in connection with the preparation, negotiation, execution and delivery of this Agreement, the Registration Rights Agreement, the Certificate of Determination, the Warrants and the related agreements and documents and the transactions contemplated hereunder and thereunder. At Closing, SciClone shall pay the amount due for such fees and expenses (which may include fees and expenses estimated to be incurred for completion of the transaction including post-closing matters). In the event such amount is ultimately less than the actual fees and expenses, SciClone shall promptly pay such deficiency upon receipt of an invoice regarding the same.

Section 3.5 Securities Compliance. SciClone shall notify the SEC and the Nasdaq National Market System, in accordance with their requirements, of the transactions contemplated by this Agreement, the Certificate of Determination, the Registration Rights Agreement and the Warrants, and shall take all other necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, for the legal and valid issuance of the Preferred Shares hereunder, the Common Shares issuable upon conversion thereof and the Warrant Shares.

Section 3.6 Intercompany Transactions; Restrictive Covenant Termination Date. Until the Restrictive Covenant Termination Date (as defined below), SciClone shall not, and shall not permit any subsidiary to, transfer assets to any direct or indirect subsidiary other than for value and for a proper business purpose. The term "Restrictive Covenant Termination Date" shall mean the date which is the earlier of (i) the date which is the last day of the 12th fiscal month following the Effective Registration ("Maximum Restrictive Covenant Termination Date"), or (ii) such date on which 80% of the Preferred Shares have been converted for Common Shares, provided that the Maximum Restrictive Covenant Termination Date shall not occur until such time as SciClone has performed all material obligations under this Agreement, the Registration Rights Agreement, the Certificate of Determination and the Warrants which were required under the terms hereof or thereof to have been so performed prior to such date, and provided further that the Maximum Restrictive Covenant Termination Date shall be deferred one and one-half (1-1/2) days for each day that there is no Effective Registration following 90 days after the Closing Date.

Section 3.7 Dividends or Distributions. So long as over 20% of the Preferred Shares remain outstanding, SciClone agrees that it shall not (a) declare or pay any dividends or make any distributions to any holder or holders of Common Shares, (b) purchase or otherwise acquire for value, directly or indirectly, any Common Stock or other equity security of SciClone either junior to or on parity with the Preferred Shares as to priority in payment of dividends and amounts payable in liquidation, or (c) authorize or issue any other equity security senior to the Preferred Shares.

Section 3.8 No Senior Securities. Until the Restrictive Covenant Termination Date, SciClone agrees that neither SciClone nor any direct or indirect subsidiary of SciClone shall create, incur, assume, guarantee, secure or in any manner become liable in respect of any indebtedness, or permit any liens, claims or encumbrances to exist against SciClone or any direct or indirect subsidiary of SciClone or any of their assets, except for such indebtedness, liens, claims or encumbrances incurred in the ordinary course of business consistent with past practices (which permitted debts include, without limitation, license fees, royalties and pursuant to any lease) and except for a working capital facility in form and substance and with a lender reasonably satisfactory to the Investor, which working capital facility shall not exceed \$1,000,000.

Section 3.9 Notices. SciClone agrees to provide all holders of Preferred Shares with copies of all notices and information, including without limitation notices and proxy statements in connection with any meetings, that are provided to the holders of shares of Common Shares, contemporaneously with the delivery of such notices or information to such Common Share holders.

Section 3.10 Right of First Refusal. Until the earlier of (a) twelve months after the Closing Date or (b) when the closing bid price of the Common Stock is equal to or greater than \$6.00 for 20 consecutive Trading Days (as defined in the Certificate of Determination), SciClone shall not offer, sell, contract or otherwise issue or deliver any securities convertible into, exercisable for, or exchangeable for Common Shares in a Convertible Private Placement (as defined in the SciClone Certificate of Determination as in effect on the date hereof) unless such offer, sale, contract, issuance or delivery is first offered to the Investors. SciClone shall make such offer by providing the Investors with written notice of SciClone's intention to enter into the Convertible Private Placement together with a term sheet containing the economic terms and significant provisions of the Convertible Private Placement and any other information reasonably requested by the Investors (the "Offer"). Such Offer shall be given with respect to each Convertible Private Placement contemplated by SciClone. Each Investor shall have eight (8) business days from receipt of the Offer to deliver a written notice to SciClone that such Investor wishes to accept the Offer in whole (subject to satisfactory due diligence and reasonably acceptable definitive documentation) for the Private Placement. If an Investor rejects the Offer or fails to respond within such eight (8) business day period, then SciClone shall be permitted to complete such Private Placement without such Investor on terms and conditions substantially the same as those contained in the Offer. If any Private Placement is contemplated on terms and conditions not substantially the same as those contained in the Offer, then such Private Placement shall be deemed a new Private Placement and the Investors shall again be entitled to receive an Offer for such Private Placement on such new terms and conditions (and/or with such new definitive documentation if applicable). If an Investor accepts the Offer but fails to close the Private Placement within twenty (20) business days of acceptance of the Offer for any reason other than (i) any breach by SciClone of its obligations hereunder or thereunder, (ii) any delay by SciClone or reasonable delay by such Investor in connection with execution of definitive documentation, (iii) failure of the parties to reasonably agree on

definitive documentation, or (iv) reasonable dissatisfaction by such Investor with their due diligence examination, the Offer to such Investor shall terminate and such Investor shall not be entitled to receive any Offer in any future Private Placement.

Section 3.11 Reservation of Stock Issuable Upon Conversion and Upon Exercise of the Warrants. SciClone shall at all times reserve and keep available out of its authorized but unissued Common Shares, solely for the purpose of effecting the conversion of the Preferred Shares and the exercise of the Warrants, such number of its Common Shares as shall from time to time be sufficient to effect the conversion of all outstanding Preferred Shares and the exercise of the Warrants, and if at any time the number of authorized but unissued Common Shares shall not be sufficient to effect the conversion of all the then outstanding Preferred Shares and the exercise of the Warrants, SciClone will take such corporate action as may, in the opinion of its counsel, be necessary to increase its authorized but unissued Common Shares to such number of shares as shall be sufficient for such purpose, including without limitation engaging in best efforts to obtain the requisite shareholder approval. Without in any way limiting the foregoing, SciClone agrees to reserve and at all times keep available solely for purposes of conversion of Preferred Shares and the exercise of the Warrants 100,000 authorized but unissued Common Shares, which number may be reduced by the number of Common Shares actually delivered pursuant to conversion of Preferred Shares under the Certificate of Determination or exercise of the Warrants and shall be appropriately adjusted for any stock split, reverse split, stock dividend or reclassification of the Common Stock. If at any time the number of authorized but unissued Common Shares is not sufficient to effect the conversion of all the then outstanding Preferred Shares or the exercise of the Warrants, the Investors shall be entitled to the redemption rights provided in the Registration Rights Agreement.

Section 3.12 Limitations on Offerings. SciClone will not sell any equity securities if the effect of such sale would be to reduce the number of Common Shares that SciClone can issue to the Investors upon conversion of the Preferred Shares without the approval, under the Nasdaq listing requirements, of the shareholders of SciClone (the "Nasdaq Shareholders Approval Requirement"). SciClone shall not offer or sell any equity securities, or any securities convertible into or exchangeable or exercisable for equity securities (other than a private placement of Common Stock to an affiliate of The Palladin Group, L.P., a registered public offering of Common Stock (other than a continuous offering pursuant to Rule 415), Common Stock issued in connection with the acquisition of product rights, a private placement of Common Stock in which the purchasers in such placement are not permitted to assign, sell, transfer or otherwise dispose of such Common Stock for a period of at least one (1) year from the date of purchase, and other shares or options issued or which may be issued pursuant to SciClone's employee, director or consultant stock option plans or shares issued upon exercise of options, warrants or rights outstanding on the Closing Date listed in the SEC Documents), during the three (3) month period commencing with the Closing Date. SciClone will not sell any equity securities during the period beginning on the 91st day following the Closing Date and ending on the 180th day following the Closing Date unless (i) the Registration Statement (as defined in the Registration Rights Agreement) is effective, and (ii) either (A) such equity securities are sold at a purchase price per share equal to or greater than the Closing Price, or (B) legal counsel to SciClone provides an opinion to the holders of Preferred Shares that such issuance will not reduce the number of Common Shares that SciClone can issue to the holders as a result of the application of the Nasdaq Shareholder Approval Requirement.

Section 3.13 SciClone Redemption Option. SciClone shall, at all times, maintain enough cash available to cover the cost of any possible redemption which SciClone may elect to effect pursuant to Section 3(c)(i), Section 3(c)(vi) or Section 3(c)(viii) of the Certificate of Determination. The amount of such cash to be maintained shall be reduced ratably in accordance with the amount of Series C Preferred Stock that

remains outstanding. No cash belonging to SciClone is required to be maintained in an escrow account at any time for purposes of such possible future redemption of Preferred Shares.

Section 3.14 Approval of Adjustment to Conversion Price. Each Investor agrees, consistent with and subject to any fiduciary duties it may owe those for whom it holds the Preferred Shares, not to unreasonably withhold approval of any adjustment to the Conversion Price or corresponding amendment to the Certificate of Determination as provided for in the fourth sentence of Section 3(n) of the Certificate of Determination.

Section 3.15 Company's Failure to Timely Convert. If within ten (10) business days of SciClone's or SciClone's Transfer Agent's receipt of the certificates representing Preferred Shares to be converted (as provided in the Certificate of Determination) and the originally executed Conversion Notice (as defined in the Certificate of Determination), SciClone shall fail to issue a certificate to a holder or credit the holder's balance account with the DTC for the number of shares of Common Stock to which such holder is entitled upon such holder's conversion of Preferred Shares or to issue a new certificate representing the number of Preferred Shares to which such holder is entitled pursuant to the Certificate of Determination, in addition to all other available remedies which such holder may pursue hereunder and under the Certificate of Determination (including indemnification pursuant to Section 7.5 hereof), SciClone shall pay additional damages to such holder on each date after such tenth (10th) business day that such conversion is not timely effected in an amount equal to one percent (1%) of the product of (A) the number of shares of Common Stock not issued to the holder on a timely basis pursuant to Section 3(h) of the Certificate of Determination and to which such holder is entitled and, in the event SciClone has failed to deliver a certificate representing Preferred Shares to the holder on a timely basis, the number of shares of Common Stock issuable upon conversion of the Preferred Shares represented by such certificate, calculated as of the last possible date which SciClone could have issued such certificate to such holder without violating Section 3(h) of the Certificate of Determination and (B) the closing bid price of the Common Stock on the last possible date which SciClone could have issued such Common Stock and such certificate, as the case may be, to such holder without violating Section 3(h) of the Certificate of Determination.

ARTICLE IV

CONDITIONS

Section 4.1 Conditions Precedent to the Obligation of SciClone to Sell the Preferred Shares. The obligation hereunder of SciClone to issue and/or sell the Preferred Shares and Warrants to the Investors is subject to the satisfaction, at or before the Closing, of each of the conditions set forth below. These conditions are for SciClone's sole benefit and may be waived by SciClone at any time in its sole discretion.

(a) Accuracy of the Investors' Representations and Warranties. The representations and warranties of each Investor shall be true and correct in all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a particular date).

(b) Performance by the Investors. Each Investor shall have performed all agreements and satisfied all conditions required to be performed or satisfied by the Investors at or prior to the Closing.

(c) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement or the Registration Rights Agreement or the Certificate of Determination or the Warrants.

Section 4.2 Conditions Precedent to the Obligation of the Investors to Purchase the Preferred Shares. The obligation hereunder of each Investor to acquire and pay for the Preferred Shares and acquire the Warrants is subject to the satisfaction, at or before the Closing, of each of the conditions set forth below. These conditions are for the Investors' sole benefit and may be waived by any or all of the Investors at any time in such Investor's sole discretion.

(a) Accuracy of SciClone's Representations and Warranties. The representations and warranties of SciClone shall be true and correct in

all material respects as of the date when made and as of the Closing Date as though made at that time (except for representations and warranties that speak as of a particular date).

(b) Performance by SciClone. SciClone shall have performed all agreements and satisfied all conditions required to be performed or satisfied by SciClone at or prior to the Closing.

(c) NASDAQ. From the date hereof to the Closing Date, trading in SciClone's Common Shares shall not have been suspended by the SEC or the Nasdaq National Market System, and trading in securities generally as reported by Nasdaq National Market System shall not have been suspended or limited, and the Common Shares shall not have been delisted from any exchange or market where they are currently listed, and the market value of the outstanding Common Shares shall not have decreased below \$1.50 per share.

(d) No Injunction. No statute, rule, regulation, executive order, decree, ruling or injunction shall have been enacted, entered, promulgated or endorsed by any court or governmental authority of competent jurisdiction which prohibits the consummation of any of the transactions contemplated by this Agreement or the Registration Rights Agreement or the Certificate of Determination or the Warrants.

(e) Opinion of Counsel. At the Closing the Investors shall have received an opinion of counsel to SciClone in the form attached hereto as Exhibit 4.2(e) and such other opinions, certificates and documents as the Investor or their counsel shall reasonably require incident to the Closing.

(f) Registration Rights Agreement. SciClone and the Investors shall have executed and delivered the Registration Rights Agreement in the form and substance of Exhibit 4.2(f) attached hereto.

(g) Adverse Changes. Since February 2, 1998, no event which had or is likely to have a Material Adverse Effect on SciClone or any of its direct or indirect subsidiaries shall have occurred.

(h) Officer's Certificate. SciClone shall have delivered to the Investors a certificate in form and substance reasonably satisfactory to the Investors, executed by an officer of SciClone, certifying as to satisfaction of closing conditions, incumbency of signing officers, charter, by-laws, good standing and authorizing resolutions of SciClone.

(i) Certificate of Determination Filed. The Investors shall have received copies of the filed Certificate of Determination.

(j) Warrants. Each Investor shall have received such Investor's Warrant executed by SciClone in the form and substance of Exhibit 1 hereto.

ARTICLE V

LEGEND AND STOCK

Each certificate representing the Preferred Shares and the Warrants shall be stamped or otherwise imprinted with a legend substantially in the following form:

THESE SECURITIES HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933 OR ANY STATE SECURITIES LAWS. THEY MAY NOT BE SOLD OR OFFERED FOR SALE EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAW OR UPON DELIVERY TO THIS CORPORATION OF AN OPINION OF LEGAL COUNSEL REASONABLY SATISFACTORY TO THE CORPORATION THAT AN EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS IS AVAILABLE.

SciClone agrees to reissue certificates representing the Preferred Shares and the Warrants without the legend set forth above at such time as (i) the holder thereof is permitted to dispose of such Preferred Shares and/or the Warrants pursuant to Rule 144(k) under the Act, or (ii) such Preferred Shares and/or the Warrants are sold to a purchaser or purchasers who (in the opinion of counsel to the seller or such purchaser(s), in form and substance reasonably satisfactory to SciClone and its counsel) are able to dispose of such shares publicly without registration under the Act.

Prior to the Registration Statement (as defined in the Registration Rights Agreement) being declared effective, any Common Shares issued pursuant to conversion of Preferred Shares or exercise of the Warrants shall bear a legend in the same form as the legend indicated above. Upon such Registration Statement becoming effective, SciClone agrees to issue instructions to its transfer agent to issue new certificates representing Common Shares sold pursuant to the Registration Statement without such legend upon such terms as shall be reasonably satisfactory to the Investors. Any Common Shares issued pursuant to conversion of Preferred Shares or exercise of the Warrants after the Registration Statement has become effective shall be free and clear of any legends, transfer restrictions and stop orders.

ARTICLE VI

MISCELLANEOUS

Section 7.1 Stamp Taxes; Agent Fees. SciClone shall pay all stamp and other taxes and duties levied in connection with the issuance of the Preferred Shares pursuant hereto and the Common Shares issued upon conversion thereof or upon exercise of the Warrants.

Section 7.2 Specific Enforcement; Consent to Jurisdiction.

(a) SciClone and the Investors acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which any of them may be entitled by law or equity.

(b) SciClone and the Investors (i) hereby irrevocably submit to the exclusive jurisdiction of the United States District Court, the New York State courts and other courts of the United States sitting in New York County, New York for the purposes of any suit, action or proceeding arising out of or relating to this Agreement and (ii) hereby waive, and agree not to assert in any such suit action or proceeding, any claim that it is not personally subject to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. SciClone and the Investors consent to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this paragraph shall affect or limit any right to serve process in any other manner permitted by law.

Section 7.3 Entire Agreement; Amendment. This Agreement, together with the Registration Rights Agreement, the Warrants and the agreements and documents executed in connection herewith and therewith, contains the entire understanding of the parties with respect to the matters covered hereby and thereby and, except as specifically set forth herein or therein, neither SciClone nor the Investors make any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by a written instrument signed by the party against whom enforcement of any such amendment or waiver is sought.

Section 7.4 Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be effective upon actual receipt of such notice. The addresses for such communications shall be:

to SciClone: SciClone Pharmaceuticals, Inc.
 901 Mariners Island Boulevard
 San Mateo, California 94404
 Fax: (650) 358-3469
 Attn: Shawn K. Singh

with copies to: Gray, Cary, Ware & Freidenrich LLP
 139 Townsend St.

San Francisco, California 94704
Fax: (415) 836-9220
Attn: Howard Clowes, Esq.

to the Investors: Halifax Fund, L.P.
c/o The Palladin Group
40 West 57th Street
New York, New York 10019
Fax: (212) 698-0554
Attn: Robert L. Chender

Thermis Partners L.P.
Heracles Fund
(c/o) Promethean Investment Group L.L.C.
40 West 57th Street
New York, New York 10019
Fax: (212) 698-0505
Attn: E. Kurt Kim

with copies to: Arnold & Porter
555 Twelfth Street, N.W.
Washington, D.C. 20004-1202
Fax: (202) 942-5999
Attn: L. Stevenson Parker, Esq.

Any party hereto may from time to time change its address for notices by giving at least 10 days' written notice of such changed address to the other parties hereto.

Section 7.5 Indemnity. Each party shall indemnify each other party against any loss, cost or damages (including reasonable attorney's fees but excluding consequential damages) incurred as a result of such parties' breach of any representation, warranty, covenant or agreement in this Agreement.

Section 7.6 Waivers. No waiver by any party of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

Section 7.7 Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

Section 7.8 Successors and Assigns. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The parties hereto may amend this Agreement without notice to or the consent of any third party. SciClone may not assign this Agreement or any rights or obligations hereunder without the prior written consent of the Investors (which consent may be withheld for any reason in its sole discretion), except that SciClone may assign this Agreement in connection with a merger, acquisition or the sale of all or substantially all of its assets provided that SciClone is not released from any of its obligations hereunder, such assignee assumes all obligations of SciClone hereunder, and appropriate adjustment of the provisions contained in this Agreement, the

Registration Rights Agreement, the Certificate of Determination and the Warrants is made, in form and substance satisfactory to the Investors, to place the Investors in the same position as it would have been but for such assignment, in accordance with the terms of the Certificate of Determination and the Warrants. The Investors may not assign this Agreement (in whole or in part) or any rights or obligations hereunder without the prior written consent of SciClone (which consent shall not be unreasonably withheld) in connection with any sale or transfer all or any portion of the Preferred Shares or the Warrants held by the Investors; provided that upon giving prior written notice to SciClone, an Investor may assign this Agreement (in whole or in part) or any rights or obligations hereunder to an affiliate of such Investor without SciClone's consent.

Section 7.9 No Third Party Beneficiaries. This Agreement is intended for the benefit of the parties hereto and their respective permitted successors and assigns and is not for the benefit of, nor may any provision hereof be enforced by, any other person.

Section 7.10 Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York without regard to such state's principles of conflict of laws.

Section 7.11 Survival. The representations and warranties and the agreements and covenants of SciClone and the Investors contained herein shall survive the Closing.

Section 7.12 Execution. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, it being understood that all parties need not sign the same counterpart.

Section 7.13 Publicity. SciClone agrees that it will not disclose, and will not include in any public announcement, the name of the Investors without such Investor's consent (which consent shall not be unreasonably withheld), unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement. SciClone agrees that it will deliver a copy of any public announcement regarding the matters covered by this Agreement or any agreement and document executed herewith to the Investors and any public announcement including the name of an Investor to such Investor, prior to publication of such announcements.

Section 7.14 Attorney's Fees. An Investor shall be entitled to recover from SciClone the reasonable attorney's fees and expenses incurred by such Investor in connection with enforcement by the Investor of any obligation of SciClone under this Agreement or the Certificate of Determination.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

SCICLONE:

SCICLONE PHARMACEUTICALS, INC.

By: _____
NAME: Donald R. Sellers
Title: President and Chief Executive Officer

INVESTOR:

HALIFAX FUND, L.P.
By: THE PALLADIN GROUP, L.P.
Attorney-in-fact

By: PALLADIN CAPITAL
MANAGEMENT, L.L.C.,
General Partner

By: _____
Name: Jeffrey E. Devers
Title: Duly Authorized Signatory

INVESTOR:

THEMIS PARTNERS L.P.
By: Promethean Investment Group L.L.C.,
its General Partner

By: _____
Name: E. Kurt Kim
Title: Duly Authorized Signatory

INVESTOR:

HERACLES FUND
By: Promethean Investment Group L.L.C.,
its Investment Advisor

By: _____
Name: E. Kurt Kim
Title: Duly Authorized Signatory

EXHIBIT 1.1

SCHEDULE OF PURCHASERS

Investor -----	Number of Shares -----	Aggregate Purchase Price -----
Halifax Fund, L.P.	413,223	\$2,500,000
Themis Partners L.P.	82,645	\$500,000
Heracles Fund	165,289	\$1,000,000
TOTAL:	661,157	\$4,000,000

EXHIBIT 1.3

SCHEDULE OF WARRANTS

Investor -----	Number of Shares Subject to Warrant -----
Halifax Fund, L.P.	62,500
Themis Partners, L.P.	12,500
Heracles Fund	25,000

Exhibit A

Form of Warrant

THIS WARRANT HAS NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED, OR ANY STATE SECURITIES LAWS. IT MAY NOT BE SOLD OR OFFERED FOR SALE EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER SAID ACT AND ANY APPLICABLE STATE SECURITIES LAW OR AN APPLICABLE EXEMPTION FROM SUCH REGISTRATION REQUIREMENTS.

SCICLONE PHARMACEUTICALS, INC.

Common Stock Purchase Warrant

SciClone Pharmaceuticals, Inc. a California corporation (the "Company"), hereby certifies that for good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, _____, having an address at _____ (the "Purchaser") or any other Warrant Holder is entitled, on the terms and conditions set forth below, to purchase from the Company at any time beginning on the date hereof and ending sixty (60) months after the date hereof, _____ fully paid and nonassessable shares of Common Stock, no par value, of the Company (the "Common Stock"), at the Purchase Price per share set forth below.

1. Definitions.

- (a) the term "Warrant Holder" shall mean the Purchaser or any assignee of all or any portion of this Warrant.
- (b) the term "Warrant Shares" shall mean the Shares of Common Stock or other securities issuable upon exercise of this Warrant.
- (c) the term "Registration Rights Agreement" shall mean the Registration Rights Agreement, dated on or about the date hereof, between the Company and the Purchaser.
- (d) the term "Agreement" shall mean the Preferred Stock Investment

Agreement, dated March 27, 1998, between the Company and the Purchaser.

(e) the term "Preferred Shares" shall mean the shares of Series C Preferred Stock of the Company.

(f) The term "Purchase Price" shall be 150% of the Closing Price as defined in the Certificate of Determination.

2. Exercise of Warrant.

This Warrant may be exercised by the Warrant Holder, in whole or in part, at any time and from time to time, on or prior to the fifth anniversary of the date hereof, by either of the following methods:

(a) The Warrant Holder may surrender this Warrant, together with cash, a check or wire transfer representing the aggregate purchase price of the number of Warrant Shares for which the Warrant is being surrendered and the form of subscription at the end hereof duly executed by Warrant Holder ("Subscription Notice"), at the offices of the Company or any transfer agent for the Common Stock; or

(b) The Warrant Holder may also exercise this Warrant, in whole or in part, in a "cashless" or "net-issue" exercise by delivering to the offices of the Company or any transfer agent for the Common Stock this Warrant, together with a Subscription Notice specifying the number of Warrant Shares to be delivered to such Warrant Holder ("Deliverable Shares") and the number of Warrant Shares with respect to which this Warrant is being surrendered in payment of the aggregate Purchase Price for the Deliverable Shares ("Surrendered Shares"); provided that the Purchase Price multiplied by the number of Deliverable Shares shall not exceed the value of the Surrendered Shares; and provided further that the sum of the number of Deliverable Shares and the number of Surrendered Shares so specified shall not exceed the aggregate Warrant Shares represented by this Warrant. For the purposes of this provision, each Warrant Share as to which this Warrant is surrendered will be attributed a value equal to the fair market value (as defined below) of the Warrant Share minus the Purchase Price of the Warrant Share.

In the event that the Warrant is not exercised in full, the number of Warrant Shares shall be reduced by the number of such Warrant Shares for which this Warrant is exercised, and the Company, at its expense, shall forthwith issue and deliver or upon the order of Warrant Holder a new Warrant of like tenor in the name of Warrant Holder or as Warrant Holder (upon payment by Warrant Holder of any applicable transfer taxes) may request, reflecting such adjusted Warrant Shares.

3. Delivery of Stock Certificates.

(a) Subject to the terms and conditions of this Warrant, as soon as practicable after the exercise of this Warrant in full or in part, and in any event within three (3) "trading days" (as defined below) thereafter, the Company shall transmit the certificates (together with any other stock or other securities or property to which Warrant Holder is entitled upon exercise) by messenger or overnight delivery service to reach the address designated by such holder within three (3) trading days after the receipt of the Warrant, the Subscription Notice and payment of the aggregate Purchase Price in Section 2(a) or 2(b), as appropriate ("T+3").

In lieu of delivering physical certificates representing the Common Stock issuable upon exercise, provided the Company's transfer agent is participating in the Depository Trust Company ("DTC") Fast Automated Securities Transfer ("FAST") program, upon request of the Warrant Holder, the Company shall use its best efforts to cause its transfer agent to electronically transmit the Common Stock issuable upon exercise to the Warrant Holder by crediting the account of Warrant Holder's prime broker with DTC through its Deposit Withdrawal Agent Commission ("DWAC") system. The time periods for delivery described in the immediately preceding paragraph shall apply to the electronic transmittals described herein.

The term "trading day" means a day on which there is trading on the Nasdaq National Market System or such other principal market or exchange on which the Common Stock is then traded.

(b) This Warrant may not be exercised as to fractional shares of Common Stock. In the event that the exercise of this Warrant, in full or in part, would result in the issuance of any fractional share of Common Stock, then in such event the Warrant Holder shall be entitled to cash equal to the fair market value of such fractional share on the date of delivery of the Subscription Notice. For purposes of this Warrant, "fair market value" shall equal the closing trading price of the Common Stock, on the Nasdaq National Market System, the American Stock Exchange or the New York Stock Exchange, whichever is the principal trading exchange or market for the Common Stock (the "Principal Market") on the date of determination or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on the Nasdaq National Market System, the average of the closing bid and asked prices on the over-the-counter market as furnished by any New York Stock Exchange member firm reasonably selected from time to time by the Company for that purpose and reasonably acceptable to the Warrant Holder, or, if the Common Stock is not listed or admitted to trading on any national securities exchange or quoted on the Nasdaq National Market System or traded over-the-counter and the average price cannot be determined as contemplated above, the fair market value of the Common Stock shall be as reasonably determined in good faith by the Company's Board of Directors with the concurrence of the Warrant Holder.

4. (A) Representations and Covenants of the Company.

(a) The Company shall comply with its obligations under the Registration Rights Agreement with respect to the Warrant Shares, including, without limitation, the Company's obligation to have filed and declared effective a registration statement registering the Warrant Shares under the Securities Act of 1933, as amended (the "Act").

(b) The Company shall take all necessary action and proceedings as may be required and permitted by applicable law, rule and regulation, including, without limitation, the notification of the Principal Market, for the legal and valid issuance of this Warrant and the Warrant Shares to the Warrant Holder under this Warrant.

(c) From the date hereof through the last date on which this Warrant is exercisable, the Company shall take all steps reasonably necessary and within its control to insure that the Common Stock remains listed on the Principal Market and shall not amend its Articles of Incorporation or Bylaws so as to adversely affect any rights of the Warrant Holder under this Warrant.

(d) The Warrant Shares, when issued in accordance with the terms hereof, will be duly authorized and, when paid for or issued in accordance with the terms hereof, shall be validly issued, fully paid and non-assessable. The Company has authorized and reserved for issuance to Warrant Holder the requisite number of shares of Common Stock to be issued pursuant to this Warrant.

(e) The Company shall at all times reserve and keep available, solely for issuance and delivery as Warrant Shares hereunder, such number of shares of Common Stock as shall from time to time be issuable pursuant to this Warrant.

(f) With a view to making available to Warrant Holder the benefits of Rule 144 promulgated under the Act and any other rule or regulation of the Securities and Exchange Commission ("SEC") that may at any time permit Warrant Holder to sell securities of the Company to the public without registration, the Company agrees to use its reasonable best efforts, while this Warrant is outstanding, to:

(i) make and keep public information available, as those terms are understood and defined in Rule 144, at all times;

(ii) file with the SEC in a timely manner all reports and other documents required of the Company under the Act and the Securities Exchange Act of 1934, as amended (the "Exchange Act"); and

(iii) furnish to any Warrant Holder forthwith upon request a written statement by the Company that it has complied with the reporting requirements of Rule 144 and of the Act and the Exchange Act, a copy of the most recent annual or quarterly report of the Company, and such other reports and documents so filed by the Company as may be reasonably requested to permit any such Warrant Holder to take advantage of any rule or regulation of the SEC permitting the selling of any such securities without registration.

(B) Representations and Covenants of the Purchaser.

The Purchaser shall not resell Warrant Shares, unless such resale is pursuant to an effective registration statement under the Act or pursuant to an applicable exemption from such registration requirements.

5. Adjustment of Purchase Price and Number of Shares. The number of and kind of securities purchasable upon exercise of this Warrant and the Purchase Price shall be subject to adjustment from time to time as follows:

(a) Subdivisions, Combinations and other Issuances. If the Company shall at any time after the date hereof but prior to the expiration of this Warrant subdivide its outstanding securities as to which purchase rights under this Warrant exist, by split-up, spinoff, or otherwise, or combine its outstanding securities as to which purchase rights under this Warrant exist, the number of Warrant Shares as to which this Warrant is exercisable as of the date of such subdivision, split-up, spin-off or combination shall forthwith be proportionately increased in the case of a subdivision, or proportionately decreased in the case of a combination. Appropriate proportional adjustments (decrease in the case of subdivision, increase in the case of combination) shall also be made to the Purchase Price payable per share, so that the aggregate Purchase Price payable for the total number of Warrant Shares purchasable under this Warrant as of such date shall remain the same.

(b) Stock Dividend. If at any time after the date hereof but prior to the expiration of this Warrant, the Company declares a dividend or other distribution on Common Stock payable in Common Stock or other securities or rights convertible into Common Stock ("Common Stock Equivalents") without payment of any consideration by holders of Common Stock for the additional shares of Common Stock or the Common Stock Equivalents (including the additional shares of Common Stock issuable upon exercise or conversion thereof), then the number of shares of Common Stock for which this Warrant may be exercised shall be increased as of the record date (or the date of such dividend distribution if no record date is set) for determining which holders of Common Stock shall be entitled to receive such dividends, in proportion to the increase in the number of outstanding shares (and shares of Common Stock issuable upon conversion of all such securities convertible into Common Stock) of Common Stock as a result of such dividend, and the Purchase Price shall be proportionately reduced so that the aggregate Purchase Price for all the Warrant Shares issuable hereunder immediately after the record date (or on the date of such distribution, if applicable), for such dividend shall equal the aggregate Purchase Price so payable immediately before such record date (or on the date of such distribution, if applicable).

(c) Other Distributions. If at any time after the date hereof but prior to the expiration of this Warrant, the Company distributes to holders of its Common Stock, other than as part of its dissolution, liquidation or the winding up of its affairs, any shares of its capital stock, any evidence of indebtedness or any of its assets (other than cash, Common Stock or securities convertible into Common Stock), then the number of Warrant Shares for which this Warrant is exercisable shall be increased to equal: (i) the number of Warrant Shares for which this Warrant is exercisable immediately prior to such event,

(ii) multiplied by a fraction, (A) the numerator of which shall be the fair market value per share of Common Stock on the record date for the dividend or distribution, and (B) the denominator of which shall be the fair market value price per share of Common Stock on the record date for the dividend or distribution minus the amount allocable to one share of Common Stock of the value (as jointly determined in good faith by the Board of Directors of the Company and the Warrant Holder) of any and all such evidences

of indebtedness, shares of capital stock, other securities or property, so distributed. The Purchase Price shall be reduced to equal: (i) the Purchase Price in effect immediately before the occurrence of any such event (ii) multiplied by a fraction, (A) the numerator of which is the number of Warrant Shares for which this Warrant is exercisable immediately before the adjustment, and (B) the denominator of which is the number of Warrant Shares for which this Warrant is exercisable immediately after the adjustment.

(d) Merger, etc. If at any time after the date hereof there shall be a merger or consolidation of the Company with or into or a transfer of all or substantially all of the assets of the Company to another entity, then the Warrant Holder shall be entitled to receive upon or after such transfer, merger or consolidation becoming effective, and upon payment of the Purchase Price then in effect, the number of shares or other securities or property of the Company or of the successor corporation resulting from such merger or consolidation, which would have been received by Warrant Holder for the shares of stock subject to this Warrant had this Warrant been exercised just prior to such transfer, merger or consolidation becoming effective or to the applicable record date thereof, as the case may be. The Company will not merge or consolidate with or into any other corporation, or sell or otherwise transfer its property, assets and business substantially as an entirety to another corporation, unless the corporation resulting from such merger or consolidation (if not the Company), or such transferee corporation, as the case may be, shall expressly assume, by supplemental agreement reasonably satisfactory in form and substance to the Warrant Holder, the due and punctual performance and observance of each and every covenant and condition of this Warrant to be performed and observed by the Company.

(e) Reclassification, etc. If at any time after the date hereof there shall be a reorganization or reclassification of the securities as to which purchase rights under this Warrant exist into the same or a different number of securities of any other class or classes, then the Warrant Holder shall thereafter be entitled to receive upon exercise of this Warrant, during the period specified herein and upon payment of the Purchase Price then in effect, the number of shares or other securities or property resulting from such reorganization or reclassification, which would have been received by the Warrant Holder for the shares of stock subject to this Warrant had this Warrant at such time been exercised.

6. No Impairment. The Company will not, by amendment of its Articles of Incorporation or through any reorganization, transfer of assets, consolidation, merger, dissolution, issue or sale of securities or any other voluntary action, avoid or seek to avoid the observance or performance of any of the terms of this Warrant, but will at all times in good faith assist in the carrying out of all such terms and in the taking of all such action as may be necessary or appropriate in order to protect the rights of the Warrant Holder against impairment. Without limiting the generality of the foregoing, the Company (a) will not increase the par value of any Warrant Shares above the amount payable therefor on such exercise, and (b) will take all such action as may be reasonably necessary or appropriate in order that the Company may validly and legally issue fully paid and nonassessable Warrant Shares on the exercise of this Warrant.

7. Notice of Adjustments. Whenever the Purchase Price or number of Shares purchasable hereunder shall be adjusted pursuant to Section 5 hereof, the Company shall execute

and deliver to the Warrant Holder a certificate setting forth, in reasonable detail, the event requiring the adjustment, the amount of the adjustment, the method by which such adjustment was calculated and the Purchase Price and number of shares purchasable hereunder after giving effect to such adjustment, and shall cause a copy of such certificate to be mailed (by first class mail, postage prepaid) to the Warrant Holder.

8. Rights As Stockholder. Prior to exercise of this Warrant, the Warrant Holder shall not be entitled to any rights as a shareholder of the Company with respect to the Warrant Shares, including (without limitation) the right to vote such shares, receive dividends or other distributions thereon or be notified of shareholder meetings. However, in the event of any taking by the Company of a record of the holders of any class of securities for the purpose of determining the holders thereof who are entitled to receive any dividend (other than a cash dividend) or other distribution, any right to subscribe for, purchase or otherwise acquire any shares of stock of any class or any other securities or property, or to receive any other right, the Company shall mail to each Warrant Holder, at least 10 days prior to the date specified therein, a notice specifying the date on which any such record is to be taken for the purpose of such dividend, distribution or right, and the amount and character of such dividend, distribution or right.

9. Limitation on Exercise. Notwithstanding anything to the contrary contained herein, this Warrant may not be exercised by the Warrant Holder to the extent that, after giving effect to Warrant Shares to be issued pursuant to a Subscription Notice, the total number of shares of Common Stock deemed beneficially owned by such holder (other than by virtue of ownership of this Warrant, or ownership of other securities that have limitations on the holder's rights to convert or exercise similar to the limitations set forth herein), together with all shares of Common Stock deemed beneficially owned by the holder's "affiliates" (as defined in Rule 144 of the Act) that would be aggregated for purposes of determining whether a group under Section 13(d) of the Securities Exchange Act of 1934 exists, would exceed 4.9% of the total issued and outstanding shares of the Common Stock. The delivery of a Subscription Notice by the Warrant Holder shall be deemed a representation by such holder that it is in compliance with this paragraph.

The term "deemed beneficially owned" as used in this Warrant shall exclude shares that might otherwise be deemed beneficially owned by reason of the exercise of this Warrant.

10. Replacement of Warrant. On receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of the Warrant and, in the case of any such loss, theft or destruction of the Warrant, on delivery of an indemnity agreement or security reasonably satisfactory in form and amount to the Company or, in the case of any such mutilation, on surrender and cancellation of such Warrant, the Company at its expense will execute and deliver, in lieu thereof a new Warrant of like tenor.

11. Specific Enforcement, Consent to Jurisdiction and Choice of Law

(a) The Company and the Warrant Holder acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Warrant were not

performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Warrant and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which either of them may be entitled by law or equity.

(b) Each of the Company and the Warrant Holder (i) hereby irrevocably submits to the exclusive jurisdiction of the state and federal court located in New York County, New York for the purposes of any suit, action or proceeding arising out of or relating to this Warrant and (ii) hereby waives, and agrees not to assert in any such suit, action or proceeding, any claim that it is not personally subject to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. Each of the Company and the Warrant Holder consents to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Warrant and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this paragraph shall affect or limit any right to serve process in any other manner permitted by law.

(c) This Warrant shall be governed by and construed and enforced in accordance with the internal laws of the State of New York without regard to such state's principles of conflict of laws.

12. Entire Agreement: Amendments. This Warrant, the Exhibits hereto and the provisions contained in the Agreement or the Registration Rights Agreement and incorporated into this Warrant and the Warrant Shares contain the entire understanding of the parties with respect to the matters covered hereby and thereby and, except as specifically set forth herein and therein, neither the Company nor the Warrant Holder makes any representation, warranty, covenant or undertaking with respect to such matters. No provision of this Agreement may be waived or amended other than by a written instrument signed by the party against whom enforcement of any such amendment or waiver is sought.

13. Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing and shall be effective (a) upon hand delivery or delivery by telex (with correct answer back received), telecopy or facsimile at the address or number designated below (if delivered on a business day during normal business hours where such notice is to be received), or the first business day following such delivery (if delivered other than on a business day during normal business hours where such notice is to be received) or (b) on the second business day following the date of mailing by express courier service, fully prepaid, addressed to such address, or upon actual receipt of such mailing, whichever shall first occur. The addresses for such communications shall be:

to the Company:

SciClone Pharmaceuticals, Inc.
901 Mariners Island Boulevard
San Mateo, California 94404
Facsimile: (650) 358-3469

Attention: Shawn K. Singh

with copies to:

Gray, Cary, Ware & Friedenrich LLP 139 Townsend Street
San Francisco, California 94107 Facsimile: (415) 836-9220
Attention: Howard Clowes, Esq.

to the Purchaser:

with copies to:

Either party hereto may from time to time change its address for notices under this Section 13 by giving at least 10 days prior written notice of such changed address to the other party hereto.

14. Miscellaneous. This Warrant and any term hereof may be changed, waived, discharged or terminated only by an instrument in writing signed by the party against which enforcement of such change, waiver, discharge or termination is sought. The headings in this Warrant are for purposes of reference only, and shall not limit or otherwise affect any of the terms hereof. The invalidity or unenforceability of any provision hereof shall in no way affect the validity or enforceability of any other provision.

15. Assignment. This Warrant may not be assigned, by the Warrant Holder, in whole or in part, without the prior written consent of the Company; provided that upon written notice to the Company, the Warrant Holder may assign this Warrant, in whole or in part, to an affiliate of the Warrant Holder without the Company's consent. In either case, to effect a transfer of this Warrant, the Warrant Holder shall submit this Warrant to the Company together with a duly executed Assignment in substantially the form and substance of the Form of Assignment which

accompanies this Warrant and, upon the Company's receipt hereof, and in any event, within three (3) business days thereafter, the Company shall issue a Warrant to the Warrant Holder to evidence that portion of this Warrant, if any as shall not have been so transferred or assigned.

Dated: _____

SCICLONE PHARMACEUTICALS, INC.

By:
Name:

Title:

Attest:

By: _____
Its

By: _____ Title:

(SUBSCRIPTION NOTICE)

FORM OF WARRANT EXERCISE
(TO BE SIGNED ONLY ON EXERCISE OF WARRANT)

TO _____

The undersigned, the holder of the within Warrant, hereby irrevocably elects to exercise this Warrant:

_____(A) for, and to purchase thereunder, _____ shares of Common Stock of SciClone Pharmaceuticals, Inc., a California corporation (the "Common Stock"), and herewith, or by wire transfer, makes payment of \$_____therefor; or

_____(B) in a "cashless" or "net-issue exercise" for, and to purchase thereunder _____ shares of Common Stock, and herewith makes payment therefor with _____ Surrendered Warrant Shares.

The undersigned requests that the certificates for such shares be issued in the name of, and

_____(A) delivered to _____, whose address is _____; or

_____(B) electronically transmitted and credited to the account of _____ undersigned's prime broker (Account No. _____) with Depository Trust Company through its Deposit Withdrawal Agent Commission system.

Dated: _____

(Signature must conform to name of holder as specified on the face of the Warrant)

(Address)

Tax Identification Number: _____

FORM OF ASSIGNMENT
(TO BE SIGNED ONLY ON TRANSFER OF WARRANT)

For value received, the undersigned hereby sells, assigns, and transfers unto _____ the right represented by the within Warrant to purchase ____ shares of Common Stock of SciClone Pharmaceuticals, Inc., a California corporation, to which the within Warrant relates, and appoints _____ Attorney to transfer such right on the books of SciClone Pharmaceuticals, Inc., a California corporation, with full power of substitution of premises.

Dated: _____

(Signature must conform to name of holder as specified on the face of the Warrant)

(Address)

Signed in the presence of:

Exhibit 4.4

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT is entered into as of April 1, 1998, between SciClone Pharmaceuticals, Inc., a California corporation (the "Company") Halifax Fund, L.P., Thermis Partners L.P. and Heracles Fund (individually, an "Investor," and collectively, the "Investors").

WITNESSETH

WHEREAS, pursuant to that certain Preferred Stock Investment Agreement by and between the Company and the Investors (the "Purchase Agreement"), the Company has agreed to sell and issue to the Investors, and the Investors have agreed to purchase from the Company, an aggregate of 661,157 shares of the Company's Series C Preferred Stock (the "Preferred Shares") on the terms and conditions set forth therein, and has agreed to issue to the Investors Common Stock Purchase Warrants ("Warrants") providing the Investors with the right to purchase an aggregate of 100,000 shares ("Warrant Shares") of Common Stock, no par value ("Common Stock") on the terms and conditions set forth in the Warrants; and

WHEREAS, the Purchase Agreement contemplates that the Preferred Shares will be convertible into shares (together with the Warrant Shares, the "Common Shares") of Common Stock pursuant to the terms and conditions set forth in the Certificate of Determination for such Preferred Shares (the "Certificate of Determination"); and

WHEREAS, pursuant to the terms of, and in partial consideration for, the Investors' agreement to enter into the Purchase Agreement, the Company has agreed to issue the Warrants and to provide the Investors with certain registration rights with respect to the Common Shares and certain other rights and remedies with respect to the Preferred Shares as set forth in this Agreement;

NOW THEREFORE, in consideration of the mutual promises, representations, warranties, covenants and conditions set forth in the Purchase Agreement and this Agreement, the Company and the Investors agree as follows:

1. Certain Definitions. Capitalized terms used herein and not otherwise defined shall have the meaning ascribed thereto in the Purchase Agreement or the Certificate of Determination. As used in this Agreement, the following terms shall have the following respective meanings:

"Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.

"Holder" and "Holders" shall include the Investors and any transferee of the Preferred Shares, the Warrant or Common Shares or Registrable Securities which have not been sold to the public, to whom the registration rights conferred by this Agreement have been transferred in compliance with this Agreement.

"Liquidation Preference" shall have the meaning ascribed to such term in the Certificate of Determination.

"Registrable Securities" shall mean: (i) the Common Shares issued to each Holder upon conversion of the Preferred Shares or exercise of the Warrants or upon any stock split, stock dividend, recapitalization or similar event with respect to such Common Shares; (ii) any securities issued or issuable to each Holder upon the exchange or conversion of any Preferred Shares, the Warrants or Common Shares; and (iii) any other security of the Company issued as a dividend or other distribution with respect to, in exchange of or in replacement of Registrable Securities.

The terms "register", "registered" and "registration" shall refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act and applicable rules and regulations thereunder, and the declaration or ordering of the effectiveness of such registration statement.

"Registration Expenses" shall mean all expenses to be incurred by the Company in connection with each Holder's registration rights under this Agreement, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, blue sky fees and expenses, reasonable fees and disbursements of counsel to Holders (using a single counsel selected by a majority in interest of the Holders) for a "due diligence" examination of the Company and review of the Registration Statement and related documents, and the expense of any special audits incident to or required by any such registration (but excluding the compensation of regular employees of the Company, which shall be paid in any event by the Company).

"Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities and all fees and disbursements of counsel for Holders not included within "Registration Expenses".

"Registration Statement" shall have the meaning set forth in Section 2(a) herein.

"Regulation D" shall mean Regulation D as promulgated pursuant to the Securities Act, and as subsequently amended.

"Securities Act" or "Act" shall mean the Securities Act of 1933, as amended.

2. Registration Requirements. The Company shall use its best efforts to effect the registration of the Registrable Securities (including without limitation the execution of an

undertaking to file post-effective amendments, appropriate qualification under applicable blue sky or other state securities laws and appropriate compliance with applicable regulations issued under the Securities Act) as would permit or facilitate the sale or distribution of all the Registrable Securities in the manner (including manner of sale) and in all states reasonably requested by the Holder. Such best efforts by the Company shall include the following:

(a) The Company shall, as expeditiously as reasonably possible after the Closing Date:

(i) Prepare and file a registration statement with the Commission pursuant to Rule 415 under the Securities Act on Form S-3 under the Securities Act (or in the event that the Company is ineligible to use such form, such other form as the Company is eligible to use under the Securities Act) covering the Registrable Securities ("Registration Statement"), which Registration Statement, to the extent allowable under the Securities Act and the rules promulgated thereunder, shall state that such Registration Statement also covers such indeterminate number of additional shares of Common Stock as may become issuable upon conversion of the Preferred Shares or exercise of the Warrant (i) to prevent dilution resulting from stock splits, stock dividends or similar transactions or (ii) by reason of changes in the Conversion Price or the Market Conversion Price. The number of shares of Common Stock initially included in such Registration Statement shall be no less than the number of Common Shares that would be issuable upon conversion of the Preferred Shares if the Conversion Price was equal to \$1.50 and upon exercise of the Warrant without regard to any limitation on the Investors' ability to convert the Preferred Shares and without regard to any adjustment of the number of shares of Common Stock issuable pursuant to the Warrants. Thereafter the Company shall use its best efforts to cause such Registration Statement and other filings to be declared effective prior to 90 days following the Closing Date. The Company shall provide the Holders reasonable opportunity to review any such Registration Statement or amendment or supplement thereto prior to filing.

(ii) Prepare and file with the Commission such amendments and supplements to such Registration Statement and the prospectus used in connection with such Registration Statement as may be necessary to comply with the provisions of the Act with respect to the disposition of all securities covered by such Registration Statement and notify the Holders of the filing and effectiveness of such Registration Statement and any amendments or supplements.

(iii) Furnish to each Holder such numbers of copies of a current prospectus conforming with the requirements of the Act, copies of the Registration Statement, any amendment or supplement thereto and any documents incorporated by reference therein and such other documents as such Holder may reasonably require in order to facilitate the disposition of Registrable Securities owned by such Holder.

- (iv) Use its best efforts to register and qualify the securities covered by such Registration Statement under such other securities or "Blue Sky" laws of such jurisdictions as shall be reasonably requested by each Holder.
- (v) Notify each Holder immediately of the happening of any event as a result of which the prospectus (including any supplements thereto or thereof) included in such Registration Statement, as then in effect, includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, and use its best efforts to promptly update and/or correct such prospectus.
- (vi) Notify each Holder immediately of the issuance by the Commission or any state securities commission or agency of any stop order suspending the effectiveness of the Registration Statement or the initiation of any proceedings for that purpose. The Company shall use its best efforts to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible time.
- (vii) Permit a single firm of counsel, designated as Holder's counsel by a majority of the Registrable Securities included in the Registration Statement, to review the Registration Statement and all amendments and supplements thereto within a reasonable period of time prior to each filing, and shall not file any document in a form to which such counsel reasonably objects.
- (viii) Use its best efforts to list the Registrable Securities covered by such Registration Statement with all securities exchange(s) and/or markets on which the Common Stock is then listed and prepare and file any required filings with the National Association of Securities Dealers, Inc. or any exchange or market where the Common Shares are traded.
- (ix) Take all steps necessary to enable Holders to avail themselves of the prospectus delivery mechanism set forth in Rule 153 (or successor thereto) under the Act.
- (b) Set forth below in this Section 2(b) are (I) events that may arise that the Investors consider will interfere with the full enjoyment of their rights under this Agreement (the "Interfering Events"), and (II) certain remedies applicable in each of these events.

Paragraphs (i) through (iv) of this Section 2(b) describe the Interfering Events, provide a remedy to the Investors if an Interfering Event occurs and provide that the Investors may require that the Company redeem outstanding Preferred Shares at a specified price if certain Interfering Events are not timely cured.

Paragraph (v) provides inter alia, that if cash payments required as the remedy in the case of certain of the Interfering Events are not paid when due, the Company may be required by the Investors to redeem outstanding Preferred Shares at a specified price.

Paragraph (vi) provides, inter alia that the Investors have the right to specific performance.

The preceding paragraphs in this Section 2(b) are meant to serve only as an introduction to this Section 2(b), are for convenience only, and are not to be considered in applying, construing or interpreting this Section 2(b).

(i) Delay in Effectiveness of Registration Statement. The Company agrees that it shall file the Registration Statement complying with the requirements of this Agreement promptly following the date of the closing of the Purchase Agreement (the "Closing Date") and shall use its best efforts to cause such Registration Statement to become effective within 90 days from the Closing Date. In the event that such Registration Statement has not been declared effective within 90 days from the Closing Date, then the Conversion Price or the Market Conversion Price, as applicable, shall be reduced by 1% during and after the 30-day period ("Default Period") from and after the 90th day following the Closing Date during which such Registration Statement is not effective, and be further reduced by an additional 1.5% during and after each Default Period thereafter. For example, if the Registration Statement does not become effective until 130 days from the Closing Date, the Conversion Price or the Market Conversion Price, as applicable, during days 91 through 119 shall be equal to 99% of the Conversion Price or the Market Conversion Price, as applicable. The Conversion Price or the Market Conversion Price, as applicable, from and after day number 120 from the Closing Date shall be equal to 97.5%. In each case, the Conversion Price or the Market Conversion Price, as applicable, shall be subject to further adjustment as set forth in the Certificate of Determination. If the Registration Statement has not been declared effective within 180 days after the Closing Date, then each Holder shall have the right to sell its Preferred Shares to the Company at a price (the "Premium Redemption Price") equal to 1.3 times (i.e., 130% of) the Liquidation Preference (as defined in the Certificate of Determination). Payment of such amount shall be due and payable within five (5) business days of demand therefor and surrender by the Holder of its certificate(s) for the Series C Preferred Stock.

(ii) No Listing Premium Price Redemption for Delisting of Class of Shares.

(A) In the event that the Company fails, refuses or is unable to cause the Registrable Securities covered by the Registration Statement to be listed with the NASDAQ National Market System and each other securities exchange and market on which the Common Stock is then traded at all times during the period ("Listing Period") from the 90th day following the Closing Date until the Forced Conversion Date (provided that such date shall be deferred 1.5 days for each day that there is no Effective Registration), then the Company shall pay in cash to each Holder

a default payment in an amount equal to three percent (3%) of the aggregate Liquidation Preference represented by the Preferred Shares held by such Holder for each 30-day period during the Listing Period from and after such failure, refusal or inability to so list the Registrable Securities until the Registrable Securities are so listed.

(B) In the event that shares of Common Stock of the Company are delisted from the NASDAQ National Market System any time following the Closing Date and remain delisted for 5 consecutive business days, then at the option of each Holder and to the extent such Holder so elects, the Company shall on 5 business days notice redeem the Preferred Shares and/or Common Shares held by such Holder, in whole or in part, as follows: (I) in the case of the Preferred Shares, they shall be redeemed at a redemption price equal to the Premium Redemption Price (as defined in Section 2(b)(i)); and (II) in the case of Common Shares issued to such Holder pursuant to conversion of the Preferred Shares, such shares shall be redeemed at a redemption price per share equal to 1.3 times the dollar amount which is the product of (x) the number of shares so to be redeemed pursuant to this paragraph, and (y) the Conversion Price or Market Conversion Price, as appropriate, as in effect at the time such shares were received pursuant to conversion of the Preferred Shares; provided, however, that such Holder may revoke such request at any time prior to receipt of such payment of such redemption price. Default payments shall no longer accrue on the Preferred Shares after such shares have been redeemed by the Company pursuant to the foregoing provision.

(iii) Blackout Periods. During the period between the effective date of the Registration Statement and the second anniversary of the Closing Date, in the event any Holder's ability to sell Registrable Securities under the Registration Statement is suspended for more than (i) five (5) consecutive business days or (ii) fifteen (15) days in any calendar year ("Suspension Grace Period"), including without limitation by reason of a suspension of trading of the Common Shares on the NASDAQ National Market System or any suspension or stop order with respect to the Registration Statement or the fact that an event has occurred as a result of which the prospectus (including any supplements thereto) included in such Registration Statement then in effect includes an untrue statement of material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in light of the circumstances then existing, then the Company shall pay in cash to each Holder a default payment in an amount equal to three percent (3%) of the Liquidation Preference for the Preferred Shares held by such Holder for each 30-day period from and after the expiration of the Suspension Grace Period. At any time after the fifth day following the expiration of the Suspension Grace Period, a Holder shall have the right to have the Company redeem its Preferred Shares and Common Shares at the price and on the terms set forth in Section 2(b)(ii)(B) above.

(iv) Conversion Deficiency Premium Price Redemption for Conversion Deficiency. In the event that the Company does not have a sufficient number of Common Shares available to satisfy the Company's obligations to any Holder upon receipt of a Conversion Notice or is otherwise unable or unwilling to issue such Common Shares (including without limitation by reason of the limit described in Section 10 below) (each, a "Conversion Deficiency") in accordance with the terms of the Purchase Agreement for any reason after receipt of a Conversion Notice, then:

(A) The Company shall pay in cash to each Holder a default payment in an amount equal to three percent (3%) of the Liquidation Preference for the Preferred Shares held by such Holder for each 30-day period that the Company fails or refuses to issue Common Shares in accordance with the terms of the Certificate of Determination; and

(B) At any time five days after the commencement of the running of the first 30-day period described above in clause (A) of this paragraph (iv), at the request of any Holder pursuant to a redemption notice, the Company promptly (1) shall purchase from such Holder, at a purchase price equal to the Premium Redemption Price, the number of Preferred Shares equal to such Holder's pro rata share of the "Deficiency," as such term is defined below, if the failure to issue Common Shares results from the lack of a sufficient number thereof and (2) shall purchase all of such Holder's Preferred Shares if the failure to issue Common Shares results from any other cause; provided, however, if within three (3) business days of such Redemption Notice the Company delivers to such Holder a Notice stating that the Company will have a sufficient number of Common Shares available for conversion of all outstanding Preferred Shares within ten (10) business days, then the Company shall not be required to redeem such Preferred Shares pursuant to this paragraph (iv) unless the Company shall fail to have a sufficient number of Common Shares available for conversion of all outstanding Preferred Shares after such ten (10) business day period. Pursuant to the foregoing, in the event any Holder delivers a Conversion Notice and the Company is unable to convert any Preferred Shares under the Certificate of Determination due to an insufficient number of Common Shares available for any reason, the Company promptly shall purchase from such Holder, at a purchase price equal to the Premium Redemption Price, the number of Preferred Shares requested to be converted in such Conversion Notice which are not so converted. The "Deficiency" shall be equal to the number of Preferred Shares that could be converted for the number of Common Shares represented by the number of Common Shares required to be issued upon receipt of a Conversion Notice less the number of Common Shares available for issuance upon receipt of such Conversion Notice, if all

outstanding Preferred Shares eligible for conversion were submitted for conversion at the Conversion Price set forth in the Certificate of Determination as of the date such Deficiency is determined. Default payments shall no longer accrue on Preferred Shares after such shares have been redeemed by the Company pursuant to the foregoing provision.

(v) Premium Price Redemption for Cash Payment Defaults.

(A) The Company acknowledges that any failure, refusal or inability by the Company described in the foregoing paragraphs (i) through (iv) will cause the Holders to suffer damages in an amount that will be difficult to ascertain, including without limitation damages resulting from the loss of liquidity in the Registrable Securities and the additional investment risk in holding the Registrable Securities. Accordingly, the parties agree that it is appropriate to include in this Agreement the foregoing provisions for default payments and mandatory redemptions in order to compensate the Holders for such damages. The parties acknowledge and agree that the default payments and mandatory redemptions set forth above represent the parties' good faith effort to quantify such damages and, as such, agree that the form and amount of such default payments are reasonable and will not constitute a penalty.

(B) Each default payment provided for in the foregoing paragraphs (ii) through (iv) shall be in addition to each other default payment. All default payments required to be made in connection with the above provisions shall be paid in cash by the tenth (10th) day of each calendar month following the date on which such payment becomes due and payable (which payments shall be pro rata on a per diem basis for any period of less than 30 days).

(C) In the event that the Company fails or refuses to pay any default payment when due, at any Holder's request and option, the Company shall purchase all or a portion of the Preferred Shares held by such Holder (with default payments accruing through the date of such purchase), within five (5) days of such request, at a purchase price equal to the Premium Redemption Price, provided that such Holder may revoke such request at any time prior to receipt of such payment of such purchase price. Until such time as the Company purchases such Preferred Shares at the request of such Holder pursuant to the preceding sentence, at any Holder's request and option the Company shall as to such Holder pay such amount by adding and including the amount of such default payment to Conversion Amount and the Liquidation Preference instead of in cash.

(vi) Cumulative Remedies. The default payments and mandatory redemptions provided for above are in addition to and not in lieu or limitation of

any other rights the Holders may have at law, in equity or under the terms of the Certificate of Determination, the Purchase Agreement, the Warrant or this Agreement, including without limitation the right to specific performance. Each Holder shall be entitled to specific performance of any and all obligations of the Company in connection with the registration rights of the Holders hereunder.

(vii) Deferral of Forced Conversion Date. In the event of a failure of Effective Registration, including without limitation by reason of any of the circumstances described in the foregoing clauses (i) through (iv) above, then the Forced Conversion Date (as defined in the Certificate of Determination) shall be deferred by 1.5 days for each day that any of the circumstances in clauses (i), (ii), (iii) (without regard to the applicability of the Suspension Grace Period), or (iv) exist.

(c) If the Holder(s) intend to distribute the Registrable Securities by means of an underwriting, the Holder(s) shall so advise the Company. Any such underwriting may only be administered by investment bankers reasonably satisfactory to the Company. The Company shall only be obligated to permit one underwritten offering, which offering shall be determined by a majority-in-interest of the Holders.

(d) In the event of an underwriting pursuant to Section 2(c), the Company shall enter into such customary agreements for a secondary offering and take all such other reasonable actions reasonably requested by the Holders in connection therewith in order to expedite or facilitate the disposition of such Registrable Securities and in such connection, whether or not an underwriting agreement is entered into and whether or not the Registrable Securities are to be sold in an underwritten offering:

(i) make such representations and warranties to the Holders and the underwriter or underwriters, if any, in form, substance and scope as are customarily made by issuers to underwriters in secondary offerings;

(ii) cause to be delivered to the sellers of Registrable Securities and the underwriter or underwriters, if any, opinions of independent counsel to the Company, on and dated as of the effective day (or in the case of an underwritten offering, dated the date of delivery of any Registrable Securities sold pursuant thereto) of the Registration Statement, and within ninety (90) days following the end of each fiscal year thereafter, which counsel and opinions (in form, scope and substance) shall be reasonably satisfactory to the Holders and the underwriter(s), if any, and their counsel and covering, without limitation, such matters as the due authorization and issuance of the securities being registered and compliance with securities laws by the Company in connection with the authorization, issuance and registration thereof and other matters that are customarily given to underwriters in underwritten offerings, addressed to the Holders and each underwriter, if any.

(iii) cause to be delivered, immediately prior to the effectiveness of the

Registration Statement (and, in the case of an underwritten offering, at the time of delivery of any Registrable Securities sold pursuant thereto), and at the beginning of each fiscal year following a year during which the Company's independent certified public accountants shall have reviewed any of the Company's books or records, a "comfort" letter from the Company's independent certified public accountants addressed to the Holders and each underwriter, if any, stating that such accountants are independent public accountants within the meaning of the Securities Act and the applicable published rules and regulations thereunder, and otherwise in customary form and covering such financial and accounting matters as are customarily covered by letters of the independent certified public accountants delivered in connection with secondary offerings; such accountants shall have undertaken in each such letter to update the same during each such fiscal year in which such books or records are being reviewed so that each such letter shall remain current, correct and complete throughout such fiscal year; and each such letter and update thereof, if any, shall be reasonably satisfactory to the Holders.

(iv) if an underwriting agreement is entered into, the same shall include customary indemnification and contribution provisions to and from the underwriters and procedures for secondary underwritten offerings;

(v) deliver such documents and certificates as may be reasonably requested by the Holders of the Registrable Securities being sold or the managing underwriter or underwriters, if any, to evidence compliance with clause (i) above and with any customary conditions contained in the underwriting agreement, if any; and

(vi) deliver to the Holders on the effective day (or in the case of an underwritten offering, dated the date of delivery of any Registrable Securities sold pursuant thereto) of the Registration Statement, and at the beginning of each fiscal quarter thereafter, a certificate in form and substance as shall be reasonably satisfactory to the Holders, executed by an executive officer of the Company and to the effect that all the representations and warranties of the Company contained in the Purchase Agreement are still true and correct except as disclosed in such certificate; the Company shall, as to each such certificate delivered at the beginning of each fiscal quarter, update or cause to be updated each such certificate during such quarter so that it shall remain current, complete and correct throughout such quarter; and such updates received by the Holders during such quarter, if any, shall have been reasonably satisfactory to the Holders.

(e) The Company shall make available for inspection by the Holders, representative(s) of all the Holders together, any underwriter participating in any disposition pursuant to a Registration Statement, and any attorney or accountant retained by any Holder or underwriter, all financial and other records customary for purposes of

the Holders' due diligence examination of the Company and review of any Registration Statement, all SEC Documents (as defined in the Purchase Agreement) filed subsequent to the Closing, pertinent corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by any such representative, underwriter, attorney or accountant in connection with such Registration Statement, provided that such parties agree to keep such information confidential.

(f) Subject to Section 2(b) above, the Company may suspend the use of any prospectus used in connection with the Registration Statement only in the event, and for such period of time as, such a suspension is required in the reasonable opinion of counsel to the Company by the rules and regulations of the Commission. The Company will use its best efforts to cause such suspension to terminate at the earliest possible date.

(g) The Company shall file a Registration Statement with respect to any newly authorized shares reserved for issuance upon conversion of the Series C Preferred Stock within five (5) business days of any shareholders meeting authorizing same and shall use its best efforts to cause such Registration Statement to become effective within ninety (90) days of such shareholders meeting. If the Holders become entitled, pursuant to an event described in clause (iii) of the definition of Registrable Securities, to receive any securities in respect of Registrable Securities that were already included in a Registration Statement, subsequent to the date such Registration Statement is declared effective, and the Company is unable under the securities laws to add such securities to the then effective Registration Statement, the Company shall promptly file, in accordance with the procedures set forth herein, an additional Registration Statement with respect to such newly Registrable Securities. The Company shall use its best efforts to (i) cause any such additional Registration Statement, when filed, to become effective under the Securities Act, and (ii) keep such additional Registration Statement effective during the period described in Section 5 below. All of the registration rights and remedies under this Agreement shall apply to the registration of such newly reserved shares and such new Registrable Securities, including without limitation the provisions providing for default payments contained herein.

3. Expenses of Registration. All Registration Expenses incurred in connection with any registration, qualification or compliance with registration pursuant to this Agreement except for registration expenses incurred pursuant to Sections 2(c) and 2(d) of this Agreement, shall be borne by the Company, and all Selling Expenses of a Holder shall be borne by such Holder.

4. Registration on Form S-3. The Company shall use its best efforts to qualify for registration on Form S-3 or any comparable or successor form or forms, or in the event that the Company is ineligible to use such form, such form as the Company is eligible to use under the Securities Act.

5. Registration Period. In the case of the registration effected by the Company pursuant to this Agreement, the Company will use its best efforts to keep such registration effective until all the Holders have completed the sales or distribution described in the

Registration Statement relating thereto or, if earlier, until such Registerable Securities may be sold under Rule 144(k) (provided that the Company's transfer agent has accepted an instruction from the Company to such effect).

6. Indemnification.

The Company Indemnity. The Company will indemnify each Holder, each of its officers, directors and partners, and each person controlling each Holder, within the meaning of

Section 15 of the Securities Act and the rules and regulations thereunder with respect to which registration, qualification or compliance has been effected pursuant to this Agreement, and each underwriter, if any, and each person who controls, within the meaning of Section 15 of the Securities Act and the rules and regulations thereunder, any underwriter, against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus, offering circular or other document (including any related registration statement, notification or the like) incident to any such registration, qualification or compliance, or based on any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of the Securities Act or any state securities law or in either case, any rule or regulation thereunder applicable to the Company and relating to action or inaction required of the Company in connection with any such registration, qualification or compliance, and will reimburse each Holder, each of its officers, directors and partners, and each person controlling such Holder, each such underwriter and each person who controls any such underwriter, for any legal and any other expenses reasonably incurred in connection with investigating and defending any such claim, loss, damage, liability or action, provided that the Company will not be liable in any such case to a Holder to the extent that any such claim, loss, damage, liability or expense arises out of or is based on any untrue statement or omission based upon written information furnished to the Company by such Holder or the underwriter (if any) therefor and stated to be specifically for use therein. The indemnity agreement contained in this Section 6(a) shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent will not be unreasonably withheld).

(b) Holder Indemnity. Each Holder will, severally and not jointly, if Registrable Securities held by it are included in the securities as to which such registration, qualification or compliance is being effected, indemnify the Company, each of its directors, officers, partners, and each underwriter, if any, of the Company's securities covered by such a registration statement, each person who controls the

Company or such underwriter within the meaning of Section 15 of the Securities Act and the rules and regulations thereunder, each other Holder (if any), and each of their officers, directors and partners, and each person controlling such other Holder(s) against all claims, losses, damages and liabilities (or actions in respect thereof) arising out of or based on any untrue statement (or alleged untrue statement) of a material fact contained in any such registration statement, prospectus, offering circular or other document, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statement therein not misleading, and will reimburse the Company and such other Holder(s) and their directors, officers and partners, underwriters or control persons for any legal or any other expenses reasonably incurred in connection with investigating and defending any such claim, loss, damage, liability or action, in each case to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such registration statement, prospectus, offering circular or other document in reliance upon and in conformity with written information furnished to the Company by such Holder and stated to be specifically for use therein, and provided that the maximum amount for which such Holder shall be liable under this indemnity shall not exceed the net proceeds received by such Holder from the sale of the Registrable Securities. The indemnity agreement contained in this Section 6(b) shall not apply to amounts paid in settlement of any such claims, losses, damages or liabilities if such settlement is effected without the consent of such Holder (which consent shall not be unreasonably withheld).

(c) Procedure. Each party entitled to indemnification under this Article (the "Indemnified Party") shall give notice to the party required to provide indemnification (the "Indemnifying Party") promptly after such Indemnified Party has actual knowledge of any claim as to which indemnity may be sought, and shall permit the Indemnifying Party to assume the defense of any such claim in any litigation resulting therefrom, provided that counsel for the Indemnifying Party, who shall conduct the defense of such claim or any litigation resulting therefrom, shall be approved by the Indemnified Party (whose approval shall not be unreasonably withheld), and the Indemnified Party may participate in such defense at such party's expense, and provided further that the failure of any Indemnified Party to give notice as provided herein shall not relieve the Indemnifying Party of its obligations under this Article except to the extent that the Indemnifying Party is materially and adversely affected by such failure to provide notice. No Indemnifying Party, in the defense of any such claim or litigation, shall, except with the consent of each Indemnified Party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation. Each Indemnified Party shall furnish such information regarding itself or the claim in question as an Indemnifying Party may reasonably request in writing and as shall be reasonably required in connection with the defense of such claim and litigation resulting therefrom.

7. Contribution. If the indemnification provided for in Section 6 herein is unavailable to the Indemnified Parties in respect of any losses, claims, damages or liabilities referred to herein

(other than by reason of the exceptions provided therein), then each such Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such losses, claims, damages or liabilities as between the Company on the one hand and any Holder on the other, in such proportion as is appropriate to reflect the relative fault of the Company and of such Holder in connection with the statements or omissions which resulted in such losses, claims, damages or liabilities, as well as any other relevant equitable considerations. The relative fault of the Company on the one hand and of any Holder on the other shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or omission or alleged omission to state a material fact relates to information supplied by the Company or by such Holder.

In no event shall the obligation of any Indemnifying Party to contribute under this Section 7 exceed the amount that such Indemnifying Party would have been obligated to pay by way of indemnification if the indemnification provided for under Section 6(a) or 6(b) hereof had been available under the circumstances.

The Company and the Holders agree that it would not be just and equitable if contribution pursuant to this Section 7 were determined by pro rata allocation (even if the Holders or the underwriters were treated as one entity for such purpose) or by any other method of allocation which does not take account of the equitable considerations referred to in the immediately preceding paragraphs. The amount paid or payable by an Indemnified Party as a result of the losses, claims, damages and liabilities referred to in the immediately preceding paragraphs shall be deemed to include, subject to the limitations set forth above, any legal or other expenses reasonably incurred by such Indemnified Party in connection with investigating or defending any such action or claim. Notwithstanding the provisions of this section, no Holder or underwriter shall be required to contribute any amount in excess of the amount by which (i) in the case of any Holder, the net proceeds received by such Holder from the sale of Registrable Securities or (ii) in the case of an underwriter, the total price at which the Registrable Securities purchased by it and distributed to the public were offered to the public exceeds, in any such case, the amount of any damages that such Holder or underwriter has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No person guilty of fraudulent misrepresentation (within the meaning of Section ii (f) of the Securities Act) shall be entitled to contribution from any person who was not guilty of such fraudulent misrepresentation.

8. Survival. The indemnity and contribution agreements contained in Sections 6 and 7 and the representations and warranties of the Company referred to in Section 2(d)(i) shall remain operative and in full force and effect regardless of (i) any termination of this Agreement or the Purchase Agreement or any underwriting agreement, (ii) any investigation made by or on behalf of any Indemnified Party or by or on behalf of the Company, and (iii) the consummation of the sale or successive resales of the Registrable Securities.

9. Information by Holders. Each Holder shall furnish to the Company such information regarding such Holder and the distribution and/or sale proposed by such Holder as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement. The intended method or methods of disposition and/or sale (Plan of Distribution) of such securities as so provided by such Holder and as approved by counsel to the Company shall be included without alteration in the Registration Statement covering the Registrable Securities and shall not be changed without the written consent of such Holder.

10. NASDAQ Limit on Stock Issuances. In the event that the Company does not issue (i) any Common Shares upon conversion of the Preferred Shares or (ii) any Warrant Shares, due to the rules or regulations of any market or exchange regulator for the market or exchange on which the Common Shares or Warrant Shares are then trading, the Company shall, at the request of any Holder promptly following such determination, purchase such Preferred Shares of such

Holder which cannot be converted, or Warrant Shares which cannot be issued, at a purchase price equal to the Premium Redemption Price.

11. Replacement Certificates. The certificate(s) representing the Common Shares or Warrant Shares held by any Investor (or then Holder) may be exchanged by such Investor (or such Holder) at any time and from time to time for certificates with different denominations representing an equal aggregate number of Common Shares or Warrant Shares, as reasonably requested by such Investor (or such Holder) upon surrendering the same. No service charge will be made for such registration or transfer or exchange.

12. Transfer or Assignment. Except as otherwise provided herein, this Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns. The rights granted to the Investors by the Company under this Agreement to cause the Company to register Registrable Securities may be transferred or assigned (in whole or in part) to a transferee or assignee of the Preferred Shares or the Warrant, and all other rights granted to the Investors by the Company hereunder may be transferred or assigned to any transferee or assignee of any Preferred Shares or the Warrant; provided in each case that each Investor must give prior written notice to the Company of any such transfer or assignment, stating the name and address of said transferee or assignee and identifying the securities with respect to which such registration rights are being transferred or assigned; and provided further that the transferee or assignee of such rights agrees in writing to be bound by the registration provisions of this Agreement.

13. Miscellaneous.

(a) Remedies. The Company and the Investors acknowledge and agree that irreparable damage would occur in the event that any of the provisions of this Agreement were not performed in accordance with their specific terms or were otherwise breached. It is accordingly agreed that the parties shall be entitled to an injunction or injunctions to prevent or cure breaches of the provisions of this Agreement and to enforce specifically the terms and provisions hereof, this being in addition to any other remedy to which any of them may be entitled by law or equity.

(b) Jurisdiction. The Company and each of the Investors (i) hereby irrevocably submits to the exclusive jurisdiction of the United States District Court, the New York State courts and other courts of the United States sitting in New York County, New York for the purposes of any suit, action or proceeding arising out of or relating to this Agreement and (ii) hereby waives, and agrees not to assert in any such suit action or proceeding, any claim that it is not personally subject to the jurisdiction of such court, that the suit, action or proceeding is brought in an inconvenient forum or that the venue of the suit, action or proceeding is improper. The Company and the Investors consent to process being served in any such suit, action or proceeding by mailing a copy thereof to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing in this paragraph shall affect or limit any right to serve process in any other

manner permitted by law.

(c) Notices. Any notice or other communication required or permitted to be given hereunder shall be in writing by facsimile, mail or personal delivery and shall be effective upon actual receipt of such notice. The addresses for such communications shall be:

to the Company:

SciClone Pharmaceuticals, Inc.
901 Mariners Island Boulevard
San Mateo, California 94404
Facsimile: (650) 358-3469
Attention: Shawn K. Singh

with copies to:

Gray, Cary, Ware & Freidenrich LLP 139 Townsend St.

San Francisco, California 94107

Facsimile: (415) 836-9220
Attention: Howard Clowes, Esq.

to the Investors:

Halifax Fund, L.P.
c/o The Paladin Group
40 West 57th Street
New York, New York 10019

Thermis Partners L.P.
Heracles Fund
c/o The Palladin Group
New York, New York 10019
40 West 57th Street
Facsimile: 212-698-0505
Attention: E. Kurt Kim

with copies to:

Arnold & Porter
555 Twelfth Street, N.W.
Washington, DC 20004-1202
Facsimile: (202) 942-5999
Attention: L. Stevenson Parker, Esq.

Any party hereto may from time to time change its address for notices by giving at least 10 days' written notice of such changed address to the other parties hereto.

(d) Indemnity. Each party shall indemnify each other party against any loss,

cost or damages (including reasonable attorney's fees) incurred as a result of such parties' breach of any representation, warranty, covenant or agreement in this Agreement.

(e) Waivers. No waiver by any party of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of any party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter. The representations and warranties and the agreements and covenants of the Company and each Investor contained herein shall survive the Closing.

(f) Execution. This Agreement may be executed in two or more counterparts, all of which shall be considered one and the same agreement, it being understood that all parties need not sign the same counterpart.

(g) Publicity. The Company agrees that it will not disclose, and will not include in any public announcement, the name of an Investor without such Investor's consent, unless and until such disclosure is required by law or applicable regulation, and then only to the extent of such requirement. The Company agrees to deliver a copy of any public announcement regarding the matters covered by this Agreement or any agreement or document executed herewith to the Investors and any public announcement including the name of an Investor to such Investor, prior to the publication of such announcements.

(h) Entire Agreement. This Agreement, together with the Purchase Agreement, the Certificate of Determination and the Warrant and the agreements and documents contemplated hereby and thereby, contains the entire understanding and agreement of the parties, and may not be modified or terminated except by a written agreement signed by both parties.

(i) Governing Law; Consent of Jurisdiction. This Agreement and the validity and performance of the terms hereof shall be governed by and construed in accordance with the laws of the State of New York.

(j) Jury Trial. EACH PARTY HERETO WAIVES THE RIGHT TO A TRIAL BY JURY.

(k) Titles. The titles used in this Agreement are used for convenience only and are not to be considered in construing or interpreting this Agreement.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed as of the date first above written.

SCICLONE:

SCICLONE PHARMACEUTICALS, INC.

By:

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

INVESTOR:

HALIFAX FUND, L.P.

By: THE PALLADIN GROUP, L.P.
Attorney-in-fact

By: PALLADIN CAPITAL
MANAGEMENT, L.L.C.,
General Partner

By: -----
Name: Jeffrey E. Devers
Title: Duly Authorized Signatory

INVESTOR:

THEMIS PARTNERS L.P.

By: Promethean Investment Group L.L.C.,
its General Partner

By: -----
Name: E. Kurt Kim
Title: Duly Authorized Signatory

INVESTOR:

HERACLES FUND

By: Promethean Investment Group L.L.C.,
its Investment Advisor

By: -----
Name: E. Kurt Kim
Title: Duly Authorized Signatory

Exhibit 21.1

SciClone Pharmaceuticals Italy s.r.l
Piazza Belgioioso 2
20121 Milano
Italy

SciClone Pharmaceuticals
PO Box 309
Ugland House
South Church Street
Grand Cayman
Cayman Island

British West Indies

Exhibit 23.1

CONSENT OF ERNST & YOUNG LLP, INDEPENDENT AUDITORS

We consent to the incorporation by reference in this Annual Report (Form 10-K) of SciClone Pharmaceuticals of our report dated January 16, 1998 except for note 10 which date is April 2, 1998, included in the 1997 Annual Report to Stockholders of SciClone Pharmaceuticals.

Our audits also include the financial statement schedule of SciClone Pharmaceuticals listed in Item 14(a). This schedule is the responsibility of the Company's management. Our responsibility is to express an opinion based on our audits. In our opinion, the financial statement schedule referred to above, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also consent to the incorporation by reference in the Registration Statement on Form S-3 No. 33-60526 pertaining to Redeemable Warrants and shares of Common Stock issued on exercise thereof and the Registration Statements on Form S-8 No. 33-66832 pertaining to the 1991 Stock Plan, No. 33-52820 pertaining to the 1991 Stock Plan and 1992 Stock Plan, No. 33-80911 pertaining to the 1995 Equity Incentive Plan, 1995 Nonemployee Director Stock Option Plan, and No. 333-12169 pertaining to the Employee Stock Purchase Plan of SciClone Pharmaceuticals, Inc. of our report dated January 16, 1998, except for note 10 which date is April 2, 1998, with respect to the consolidated financial statements incorporated herein by reference, and our report included in the preceding paragraph with respect to the financial statement schedule included in this Annual Report (Form 10-K) for the year ended December 31, 1997.

Palo Alto, California

April 2, 1998

ARTICLE 5

MULTIPLIER: 1

CURRENCY: U.S. DOLLARS

PERIOD TYPE	12 MOS
FISCAL YEAR END	DEC 31 1997
PERIOD START	JAN 01 1997
PERIOD END	DEC 31 1997
EXCHANGE RATE	1
CASH	3,619,100
SECURITIES	9,281,365
RECEIVABLES	1,024,802
ALLOWANCES	0
INVENTORY	2,046,218
CURRENT ASSETS	10,888,320
PP&E	1,303,234
DEPRECIATION	(778,157)
TOTAL ASSETS	19,195,505
CURRENT LIABILITIES	3,471,848
BONDS	0
PREFERRED MANDATORY	0
PREFERRED	0
COMMON	107,033,516
OTHER SE	(91,309,859)
TOTAL LIABILITY AND EQUITY	19,195,505
SALES	2,223,052
TOTAL REVENUES	2,223,052
CGS	989,792
TOTAL COSTS	989,792
OTHER EXPENSES	16,449,077
LOSS PROVISION	0
INTEREST EXPENSE	0
INCOME PRETAX	(13,997,005)
INCOME TAX	0
INCOME CONTINUING	(13,997,005)
DISCONTINUED	0
EXTRAORDINARY	0
CHANGES	0
NET INCOME	(13,997,005)
EPS PRIMARY	(0.85)
EPS DILUTED	(0.85)

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