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FILER: COMPANY DATA:
COMPANY CONFORMED NAME: PALATIN TECHNOLOGIES INC
CENTRAL INDEX KEY: 0000911216
STANDARD INDUSTRIAL CLASSIFICATION: 2835
IRS NUMBER: 954078884
STATE OF INCORPORATION: DE
FISCAL YEAR END: 0630
FILING VALUES: FORM TYPE: 10KSB/A
SEC ACT: 1934
SEC FILE NUMBER: 000-22686
FILM NUMBER: 97642102
BUSINESS ADDRESS:
STREET 1: 214 CARNEGIE CENTER
STREET 2: SUITE 100
CITY: PRINCETON
STATE: NJ
ZIP: 08540
BUSINESS PHONE: 609-520-1911
MAIL ADDRESS:
STREET 1: 214 CARNAGIE CENTER
STREET 2: SUITE 100
CITY: PRINCETON
STATE: NJ
ZIP: 08540
FORMER COMPANY:
FORMER CONFORMED NAME: INTERFILM INC
DATE OF NAME CHANGE: 19930825

10KSB/A
1

FORM 10-KSB/A (FIRST AMENDED 10-KSB)

===============================================================================
U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-KSB/A
AMENDMENT NO. 1

[ ] ANNUAL REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE
ACT OF 1934 (FEE REQUIRED)

or

[X] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 (NO FEE REQUIRED)

For the transition period from September 1, 1995 to June 30, 1996

Commission file number 0-22686

PALATIN TECHNOLOGIES, INC.
(Exact name of small business issuer as specified in its charter)

DELAWARE 95-4078884
(State of incorporation or organization) (I.R.S. Employer Identification No.)
The undersigned Registrant hereby amends the following items, financial statements, exhibits or other portions of its Transition Report on Form 10-KSB for the transition period from September 1, 1995, to June 30, 1996, as set forth in the pages attached hereto.

PART II

ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.

GENERAL

The following discussion and analysis should be read in conjunction with
the consolidated financial statements and notes thereto filed as part of this Form 10-KSB.

Prior to May 10, 1995, Interfilm had been primarily engaged in the business of exploiting the rights related to its interactive motion picture process, including the production and distribution of interactive motion pictures for initial exhibition in theaters and subsequently in enhanced versions for distribution to the home market. On May 10, 1995, the Board of Directors of Interfilm decided to substantially curtail the operations of Interfilm and its subsidiaries. As a result of the Merger, which became effective on June 25, 1996, RhoMed became a wholly-owned subsidiary of the Company, with the holders of RhoMed preferred stock and RhoMed common stock (including the holders of options pursuant to RhoMed’s qualified and nonqualified stock option plans and RhoMed common stock warrants) receiving an aggregate of an approximately 96% interest in the equity securities of the Company on a fully-diluted basis. Since the former stockholders of RhoMed retained more than a 50% controlling interest in the Company, the Merger was treated as a reverse acquisition for accounting purposes. The historical financial statements of the Company presented prior to the Merger are those of RhoMed and the business of RhoMed represents the on-going business of the Company.

Results of Operations

Ten Month Period Ended June 30, 1996 Compared to Ten Month Period Ended June 30, 1995. License fees and royalties were zero for the ten months ended June 30, 1996, compared to $64,296 in the prior ten month period. The decrease in license fees and royalties is primarily attributable to the timing of when these fees are earned; during the ten months ended June 30, 1996, there were no royalties on product sales or new license agreements. Sales of RhoChek, the sole product sold by the Company, decreased $6,090 to $24,457 in the current ten month period from $30,546 in the prior ten month period. Due to insufficient sales, the Company expects to discontinue the manufacture and sale of its RhoChek product in fiscal 1997. The Company expects sales to decrease in fiscal 1997 as product sales for RhoChek are discontinued.

Research and development expenses increased by $391,983 to $869,896 for the ten months ended June 30, 1996, from $477,913 in the ten months ended June 30, 1995. The majority of the increase is attributable to the Company’s Leu-Tech project, including increased consulting, clinical trial and manufacturing scale-up expenses.

General and administrative expenses increased to $1,250,343 in the current ten month period from $598,560 for the ten months ended June 30, 1995. The majority of the increase is due to the hiring of a Chairman and CEO; Vice President of Finance and CFO; the leasing of general and administrative offices in New Jersey; and increased travel and consulting expenses.

Other expenses increased to $1,802,097 for the ten months ended June 30, 1996 from $305,615 for the ten months ended June 30, 1995. The increase is attributable primarily to increased interest expense, commission and fees paid in connection with the Company’s debt offerings ($168,970), costs and fees
associated with the Merger ($525,000), costs and expenses associated with the relocation of the Company's research and general and administrative offices ($284,000), including primarily severance costs, facility closing expenses and recruiting fees, and the write down of certain patents not currently used in development projects ($259,334).

Net loss increased to $3,897,879 in the ten months ended June 30, 1996, compared to $1,287,246 in the prior ten month period.

Fiscal Year Ended August 31, 1995 Compared to Fiscal Year Ended August 31, 1994. Total revenues decreased by $49,946 to $97,902 for the fiscal year ended August 31, 1995, from $147,848 in the previous fiscal year. The decrease is attributable to no grant revenue during fiscal year 1995 compared to $50,289 for the previous fiscal year.

Research and development expenses were $619,354 for the fiscal year ended August 31, 1995 compared to $584,941 for the previous fiscal year.

General and administrative expenses decreased to $776,291 for the fiscal year ended August 31, 1995 from $939,155 in the previous fiscal year. Such decrease was primarily attributable to decreased offering expenses.

Other expenses increased to $341,121 for the fiscal year ended August 31, 1995 from $168,707 in the previous fiscal year. The increase is attributable to higher interest expense due to a higher average debt balance outstanding throughout the 1995 fiscal year.

Net loss for the fiscal year ended August 31, 1995 increased to $1,638,864 from $1,544,955 in the previous fiscal year.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has incurred net operating losses and, as of June 30, 1996, had an accumulated deficit of approximately $8,100,000. The Company has financed its net operating losses through June 30, 1996 by a series of debt and equity financings. At June 30, 1996, the Company's cash position amounted to $6,791,300.

For the ten months ended June 30, 1996, the net increase in cash amounted to $6,317,282. Cash provided by financing activities was $9,053,350, mainly comprised of net proceeds from common stock offerings of $9,143,303, which was offset by net cash used for operating activities of $2,709,491 and net cash used for investing activities of $26,577.

The Company has $1,000,000 face amount senior bridge notes which mature, with accrued interest, in August and September of 1996. The current portion of long-term debt maturing in fiscal year 1997 totals $311,695.

The Company's current cash position is sufficient to meet its debt obligations in fiscal year 1997, and fund its operations, at their current level, through fiscal year 1997.

The Company has incurred negative cash flows from operations since its inception. The Company has expended, and will continue to expend in the future, if available, substantial funds to continue its research and development programs, including pre-clinical studies and clinical trials, to seek
regulatory approval of its products and to develop manufacturing and distribution capabilities. Further, the Company has a significant portion of short-term debt coming due during the fiscal year ending June 30, 1997. The Company anticipates, based on projected expenditure levels, that its existing capital resources will be adequate to make scheduled debt payments and to fund its operations through fiscal year 1997. The Company's future capital requirements depend on numerous factors which cannot be quantified, including continued progress in its research and development activities, progress with pre-clinical studies and clinical trials, prosecuting and enforcing patent claims, technological and market developments, the ability of the Company to establish product development arrangements, the cost of manufacturing scale-up and effective marketing activities and arrangements. The Company will seek to obtain additional funds through equity or debt financing, collaborative or other arrangements with corporate partners and others, and from other sources. No assurance can be given that additional financing will be available when needed or on terms acceptable to the Company. If adequate additional funds are not available, the Company may be required to delay, scale back or eliminate certain of its research, drug discovery or development activities or certain other aspects of its business. If adequate funds are not available, the Company's business will be materially and adversely affected.

The Company intends to relocate its research and development facility from Albuquerque, New Mexico to the Princeton, New Jersey area during fiscal year 1997. The Company may incur significant costs to build and equip research and development laboratory space, although an estimate of expenditure and lease costs for a new facility cannot be determined at this time.

The Company anticipates incurring additional losses over at least the next several years, and such losses are expected to increase as the Company expands its research and development activities relating to its metallopeptide technology and its radiolabeling technology. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and products, conduct pre-clinical studies and clinical trials, obtain required regulatory approvals and successfully manufacture, introduce and market such technologies and products. The time required to reach profitability is highly uncertain, and there can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

PART III

ITEM 13. EXHIBITS, FINANCIAL STATEMENTS AND REPORTS ON FORM 8-K.

(A)(1) FINANCIAL STATEMENTS

The following financial statements of the Company are filed as part of this report:
(A)(2) EXHIBITS

The following exhibits are filed as part of this report:

2.1 Agreement and Plan of Reorganization dated as of April 12, 1996 by and between Interfilm, Inc., Interfilm Acquisition Corp. and RhoMed Incorporated. (a)

2.2 Waiver and Consent dated as of June 24, 1996, between Interfilm, Inc., Interfilm Acquisition Corp. and RhoMed Incorporated. (b)*

3.1 Restated Certificate of Incorporation of the Company, as filed with the Delaware Secretary of State on November 3, 1993. (c)

3.2 Amendment to the Restated Certificate of Incorporation of the Company, as filed with the Delaware Secretary of State on July 19, 1996. (d)

3.3 Bylaws of the Company. (e)

3.4 Amended Certificate of Designation of Series A Preferred Stock of the Company, filed on June 24, 1996. (f)

3.5 Amended Certificate of Designation of Series B Preferred Stock of the Company, filed on June 24, 1996. (g)

4.1 Specimen Certificate for Common Stock. (h)

4.3 Master Lease Agreement dated November 16, 1994, between RhoMed Incorporated and Aberlyn Capital Management Limited Partnership. (b)*

4.4 Letter Agreement, dated as of April 28, 1995, between Aberlyn Capital Management Limited Partnership and RhoMed Incorporated. (b)*


10.01 Lease between Charles C. and Ellen C. France Revocable Trust and RhoMed Incorporated dated December 18, 1992. (b)*

10.02 Amendment, dated November 1, 1993, to Lease between Charles C. and Ellen C. France Revocable Trust and RhoMed Incorporated. (b)*

10.03 Second Amendment, dated July 5, 1996, to Lease between Charles C. and Ellen C. France Revocable Trust and RhoMed Incorporated. (b)*

10.04 RhoMed Incorporated 1995 Employee Incentive Stock Option Plan. (b)(i)*

10.05 RhoMed Incorporated 1995 Nonqualified Stock Option Plan. (b)(i)*

10.06 1996 Stock Option Plan of the Company. (b)(i)*

10.07 Employment Agreement dated as of November 16, 1995, between RhoMed Incorporated and Edward J. Quilty. (b)(i)*

10.08 Employment Agreement dated as of September 27, 1996, between Palatin Technology, Inc. and Carl Spana. (b)(i)*

10.09 Employment Agreement dated as of September 27, 1996, between Palatin Technology, Inc. and Charles Putnam. (b)(i)*

10.10 Class C Warrant for the Purchase of Shares of Common Stock issued to William I. Franzblau June 24, 1996. (b)(i)*

10.11 License Agreement between Rougier Bio-Tech Limited and RhoMed Incorporated dated May 1, 1992. (b)*
10.12 License Agreement between Sterling Winthrop Inc. and RhoMed Incorporated dated November 2, 1992. (b)*

10.13 Assignment and Assumption dated January 21, 1994, between Sterling Winthrop, Inc. and Burroughs Wellcome Co. (b)*

10.14 Option Agreement between RhoMed Incorporated and The Wistar Institute of Anatomy and Biology dated August 22, 1996. (b)*

10.15 Consulting Agreement dated as of March 7, 1995, between RhoMed Incorporated and Buck A. Rhodes. (b)*

10.16 Form of Class A Warrant. (b)*

10.17 Form of Placement Agent Warrant for the Class A Offering. (b)*

10.18 Form of Unit Purchase Agreement for the Class A Offering, including registration rights referred to in the Form of Class A Warrant and Form of Placement Agent Warrant for the Class A Offering. (b)*

10.19 Form of Class B Warrant. (b)*

10.20 Form of Placement Agent Warrant for the Class B Offering. (b)*

10.21 Form of Unit Purchase Agreement for the Class B Offering, including registration rights referred to in the Form of Class B Warrant and Form of Placement Agent Warrant for the Class B Offering. (b)*

10.22 Form of Placement Agent Warrant for the RhoMed Common Stock Offering. (b)*

10.23 Form of Common Stock Purchase Agreement for the RhoMed Common Stock Offering, including registration rights referred to in the Form of Placement Agent Warrant for the RhoMed Common Stock Offering. (b)*

16.1 Letter dated July 19, 1996 from Deloitte & Touche LLP. (j)

21.1 Current list of subsidiaries of the registrant. (b)*

23.1 Consent of Arthur Andersen LLP. (b)*

23.2 Consent of Arthur Andersen LLP. (k)

27.1 Financial Data Schedule. (b)*
99.1 Certificate of Limited Partnership of "The Interfilm Stockholders Limited Partnership," as filed with the Delaware Secretary of State on June 17, 1996. (b)*

99.2 Agreement of Limited Partnership of The Interfilm Stockholders Limited Partnership, dated June 11, 1996. (b)*

99.3 The Interfilm Stockholders Trust, established by Interfilm, Inc. and Interfilm Technologies, Inc. on June 11, 1996. (b)*

99.4 General Bill of Sale, Assignment and Assumption Agreement among, on the one hand, Interfilm, Inc. and Interfilm Technologies, Inc. and on the other hand, The Interfilm Stockholders Limited Partnership, dated June 25, 1996. (b)*

NOTES TO EXHIBITS

* Filed as an exhibit to the registrant’s Form 10-KSB transition report for the transition period from September 1, 1995 to June 30, 1996, of which this Amendment No. 1 forms a part.

(a) Incorporated by reference to Exhibit 2.1 of the registrant’s Form 8-K dated June 25, 1996, filed with the Commission on July 10, 1996.

(b) Filed as an exhibit to this Form 10-KSB Annual Report for the period ended June 30, 1996.

(c) Incorporated by reference to Exhibit 3.1 of the registrant’s Form 8-K dated July 19, 1996, filed with the Commission on August 9, 1996.

(d) Incorporated by reference to Exhibit 3.2 of the registrant’s Form 8-K dated July 19, 1996, filed with the Commission on August 9, 1996.

(e) Incorporated by reference to Exhibit 3.2 of the registrant’s Registration Statement No. 33-67862.

(f) Incorporated by reference to Exhibit 3.3 of the registrant’s Form 8-K dated July 19, 1996, filed with the Commission on August 9, 1996.

(g) Incorporated by reference to Exhibit 3.4 of the registrant’s Form 8-K dated July 19, 1996, filed with the Commission on August 9, 1996.

(h) Incorporated by reference to Exhibit 4.1 of the registrant’s Form 8-K dated July 19, 1996, filed with the Commission on August 9, 1996.

(i) A management contract or compensatory plan or arrangement.


(k) Filed as an exhibit to this Amendment No. 1 to Form 10-KSB transition report for the transition period from September 1, 1995 to June 30, 1996.
(B) REPORTS ON FORM 8-K

No Current Reports on Form 8-K were filed by the Company during the three months ended June 30, 1996.

SIGNATURES

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

PALATIN TECHNOLOGIES, INC.

Date: July 15, 1997

By: /s/ John J. McDonough

John J. McDonough
Vice President and Chief Financial Officer (Principal Financial and Accounting Officer)
REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of
Palatin Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of PALATIN TECHNOLOGIES, INC. (a Delaware corporation in the development stage) AND SUBSIDIARIES as of June 30, 1996 (post-Merger, see Note 1) and August 31, 1995 (pre-Merger), and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the period from September 1, 1995 through June 30, 1996 (post-Merger, consisting of the statement of operations and cash flows of RhoMed Incorporated, predecessor corporation in the continuing business of Palatin Technologies, Inc. and subsidiaries for the period from September 1, 1995 through June 25, 1996 (pre-Merger), audited by us, and the statements of operations and cash flows of Palatin Technologies, Inc. and subsidiaries for the period from June 26, 1996 through June 30, 1996 (post-Merger), also audited by us, and for the years ended August 31, 1995 and 1994 (pre-Merger). We have also audited the consolidated statements of operations and cash flows of Palatin Technologies, Inc. and subsidiaries for the period from inception (January 28, 1986) through June 30, 1996 (post-Merger, consisting of the statements of operations and cash flows of RhoMed Incorporated and Palatin Technologies, Inc. and subsidiaries as described above). 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 audits 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.

F-1
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palatin Technologies, Inc. and subsidiaries as of June 30, 1996, and August 31, 1995, and the results of their operations and their cash flows for each of the periods indicated above in conformity with generally accepted accounting principles.

/s/  ARTHUR ANDERSEN LLP

Albuquerque, New Mexico
July 31, 1996

PALATIN TECHNOLOGIES, INC.
(RhoMed Incorporated prior to June 25, 1996 Reverse Merger)
(A Development Stage Enterprise)
Consolidated Balance Sheets
June 30, 1996 and August 31, 1995
### ASSETS

**Current assets:**
- Cash $6,791,300 $474,018
- Accounts receivable, including employee receivables of $113 and $1,121 as of June 30, 1996 and August 31, 1995, respectively: 4,574 5,626
- Prepaid expenses and other: 66,430 19,752

**Total current assets:** 6,862,304 499,396

- Equipment, net (Notes 2 and 4): 96,354 134,368

**Intangibles, net of accumulated amortization of $91,336 and $68,938 as of June 30, 1996 and August 31, 1995, respectively:** 82,547 319,965

**Total assets:** $7,041,205 $953,729

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

---

**PALATIN TECHNOLOGIES, INC.**
(RhoMed Incorporated prior to June 25, 1996 Reverse Merger)
(A Development Stage Enterprise)

**Consolidated Balance Sheets**

**June 30, 1996 and August 31, 1995**

**- Continued -**

### LIABILITIES AND STOCKHOLDERS’ EQUITY (DEFICIT)

**Current liabilities:**
- Accounts payable, including related party payables of $34,234 as of June 30, 1996 $214,424 $305,857
- Accrued compensation owed to employees (Note 3) 78,084 171,290
- Accrued expenses (Note 1) 655,197 112,747
- Notes payable, related party (Note 3) 23,286
- Current portion of long-term financing, including accrued interest of $38,912 (Note 6) 311,695 105,000

---
Senior bridge notes, including related party transaction of $110,000 and $100,000 as of June 30, 1996 and August 31, 1995, respectively (Note 7)       $1,100,000  $1,000,000

Total current liabilities                                          2,359,400  1,718,180

Long-term financing, including accrued interest of $273,339 and $285,614 as of June 30, 1996 and August 31, 1995, respectively (Note 6)       1,727,619  1,972,677

Notes payable to stockholders, including accrued interest of $35,979 and $29,312 as of June 30, 1996 and August 31, 1995, respectively (Note 8)       115,979  109,312

Commitments and contingencies (Note 9)

Stockholders’ equity (deficit) (Notes 1, 3, 6, 7, 8, 9 and 10):
- Preferred stock, $.01 and zero par value, and 2,000,000 and 10,000,000 shares authorized, as of June 30, 1996 and August 31, 1995, respectively; no shares issued as of June 30, 1996 and August 31, 1995; 4,000,000 subscribed as of August 31, 1995 --  --
- Preferred stock subscribed 4,000
- Preferred stock receivable (4,000)
- Common stock, $.01 and zero par value, and 25,000,000 and 40,000,000 shares authorized, as of June 30, 1996 and August 31, 1995, respectively; 11,538,777 and 6,922,069 issued as of June 30, 1996 and August 31, 1995, respectively 115,388  1,177,786
- Additional paid-in capital 10,804,394
- Common stock earned but not issued 53,030  110,833
- Paid-in capital from common stock warrants 100,000
- Treasury stock, 1,229 shares (1,667)
- Deficit accumulated during development stage (8,132,938) (4,235,059)

2,838,207  (2,846,440)

$ 7,041,205  $ 953,729

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.
PALATIN TECHNOLOGIES, INC.
(RhoMed Incorporated prior to June 25, 1996 Reverse Merger)
(A Development Stage Enterprise)
Consolidated Statements of Operations
for the Period from Inception (January 28, 1986)
through June 30, 1996 and for the Ten Months Ended June 30, 1996
and the Years Ended August 31, 1995 and 1994
Inception Fiscal Year Ended
(January 28, 1986) Ten Months August 31,
through Ended ------------------

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<th>REVENUES:</th>
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<th>1994</th>
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<td>$2,860,512</td>
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<td>Sales</td>
<td>296,733</td>
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<td>Total revenues</td>
<td>3,491,541</td>
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<td>General and administrative</td>
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<td>Restructuring charge (Note 9)</td>
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<td>939,155</td>
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<td>Net intangibles write down (Note 5)</td>
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<td>259,334</td>
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<td>Total operating expenses</td>
<td>9,958,703</td>
<td>1,524,096</td>
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<td>Other income</td>
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<td>Interest expense</td>
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<td>Placement agent commissions and fees on debt offering</td>
<td>(168,970)</td>
<td>(168,970)</td>
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<td>Merger costs</td>
<td>(525,000)</td>
<td>(525,000)</td>
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<tr>
<td>Total other income (expenses)</td>
<td>(1,665,776)</td>
<td>(168,707)</td>
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NET LOSS $ (8,132,938) $ (3,897,879) $ (1,638,864) $ (1,544,955)

Weighted average number of common shares outstanding 1,173,525 2,144,131 1,238,192 1,205,617

Net loss per common share $ (6.93) $ (1.82) $ (1.32) $ (1.28)

The accompanying notes to consolidated financial statements are an integral part of these statements.
PALATIN TECHNOLOGIES, INC.
(RhoMed Incorporated prior to June 25, 1996 Reverse Merger)
(A Development Stage Enterprise)
Consolidated Statements of Stockholders' Equity (Deficit)
for the Period from Inception (January 28, 1986)
Through June 30, 1996
## Preferred Stock

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<th>Amount</th>
<th>Subscriptions</th>
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<td>Balance at inception</td>
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<td>Issuance of shares from inception</td>
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<td>$</td>
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<tr>
<td>Net loss from inception</td>
<td>$</td>
<td>$</td>
<td>$</td>
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### Balance, August 31, 1994

- Issuance of shares: $0
- Shares earned but not issued: $0
- Issuance of options: $0
  - Paid-in capital from common
- Preferred stock subscriptions: $4,000
- Net loss: $0

### Balance, August 31, 1995

- Preferred stock subscriptions: $4,000
- Issuance of preferred shares: $4,000

### Balance, June 30, 1996

- Conversion to Palatin Technologies, Inc.: ($4,000,000)

### Adjusted balance, June 25, 1996

- Shares outstanding of Palatin Technologies, Inc.: $0
- Issuance of common shares: $0
- Purchase of treasury stock: $0

### Balance, June 30, 1996

- $0
- $0
- $0

The accompanying notes to consolidated financial statements are an integral part of these statements.
PALATIN TECHNOLOGIES, INC.
(RhoMed Incorporated prior to June 25, 1996 Reverse Merger)
(A Development Stage Enterprise)
Consolidated Statements of Stockholders' Equity (Deficit)
for the Period from Inception (January 28, 1986)
Through June 30, 1996
- Continued -
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<td>Balance at inception</td>
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<td></td>
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<tr>
<td>Issuance of shares from inception</td>
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<td>1,158,883</td>
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<td>Net loss from inception</td>
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<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Balance, August 31, 1994</td>
<td>6,562,467</td>
<td>1,158,883</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Issuance of shares</td>
<td>359,602</td>
<td>10,203</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Shares earned but not issued</td>
<td></td>
<td></td>
<td>---</td>
<td>110,833</td>
<td>---</td>
</tr>
<tr>
<td>Issuance of options</td>
<td></td>
<td>8,700</td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Paid-in capital from common stock warrants</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>100,000</td>
</tr>
<tr>
<td>Preferred stock subscriptions</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Balance, August 31, 1995</td>
<td>6,922,069</td>
<td>1,177,786</td>
<td>110,833</td>
<td>100,000</td>
<td></td>
</tr>
<tr>
<td>Issuance of preferred shares</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Issuance of common shares on $10,395,400 private placement</td>
<td>41,581,600</td>
<td>9,139,303</td>
<td>266,743</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Shares earned but not issued</td>
<td></td>
<td></td>
<td>---</td>
<td>266,743</td>
<td>---</td>
</tr>
<tr>
<td>Issuance of common shares</td>
<td>1,054,548</td>
<td>450,977</td>
<td>(324,546)</td>
<td>(100,000)</td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Balance, June 25, 1996</td>
<td>49,558,217</td>
<td>10,776,066</td>
<td>53,030</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Conversion to Palatin Technologies, Inc.</td>
<td>(38,555,207)</td>
<td>(10,666,035)</td>
<td>10,670,035</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Adjusted balance, June 25, 1996</td>
<td>11,003,010</td>
<td>110,031</td>
<td>10,670,035</td>
<td>53,030</td>
<td></td>
</tr>
<tr>
<td>Shares outstanding of Palatin Technologies, Inc.</td>
<td>432,750</td>
<td>4,327</td>
<td>(4,327)</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Issuance of common shares</td>
<td>103,017</td>
<td>1,030</td>
<td>138,686</td>
<td>---</td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td></td>
<td></td>
<td>---</td>
<td>---</td>
<td>---</td>
</tr>
<tr>
<td>Balance, June 30, 1996</td>
<td>11,538,777</td>
<td>$115,388</td>
<td>$10,804,394</td>
<td>$53,030</td>
<td>$</td>
</tr>
</tbody>
</table>
### Deficit Accumulated During Treasury Stock Development Stage Total

<table>
<thead>
<tr>
<th></th>
<th>Balance at inception</th>
<th>Issuance of shares from inception</th>
<th>Net loss from inception</th>
<th>Balance, August 31, 1994</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
<td>$ -</td>
</tr>
<tr>
<td>Issuance of shares</td>
<td></td>
<td>1,158,883</td>
<td></td>
<td>(2,596,195)</td>
</tr>
<tr>
<td>Net loss from inception</td>
<td></td>
<td>(2,596,195)</td>
<td>(2,596,195)</td>
<td>(1,437,312)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, August 31, 1994</td>
<td></td>
<td>(2,596,195)</td>
<td>(1,437,312)</td>
<td></td>
</tr>
<tr>
<td>Issuance of shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares earned but not issued</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of options</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Paid-in capital from common stock warrants</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock subscriptions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td>(1,638,864)</td>
<td>(1,638,864)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, August 31, 1995</td>
<td></td>
<td>(4,235,059)</td>
<td>(2,846,440)</td>
<td></td>
</tr>
<tr>
<td>Preferred stock subscriptions</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of preferred shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of common shares on $10,395,400 private placement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares earned but not issued</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of common shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td>(3,897,879)</td>
<td>(3,897,879)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 25, 1996</td>
<td></td>
<td>(8,132,938)</td>
<td>2,700,158</td>
<td></td>
</tr>
<tr>
<td>Conversion to Palatin Technologies, Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Adjusted balance, June 25, 1996</td>
<td>(8,132,938)</td>
<td>2,700,158</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares outstanding of Palatin Technologies, Inc.</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of common shares</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td></td>
<td>(1,667)</td>
<td>(1,667)</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 30, 1996</td>
<td></td>
<td>(1,667)</td>
<td>(8,132,938)</td>
<td>(2,838,207)</td>
</tr>
<tr>
<td></td>
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<td></td>
<td></td>
</tr>
</tbody>
</table>

The accompanying notes to consolidated financial statements are an integral part of these statements.

F-7
## Consolidated Statements of Cash Flows


<table>
<thead>
<tr>
<th>Inception</th>
<th>Fiscal Year Ended</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>(January 28, 1986)</td>
<td>Ten Months Ended</td>
<td>June 30,</td>
<td>August 31,</td>
</tr>
<tr>
<td></td>
<td>through June 30,</td>
<td>1996</td>
<td>1995</td>
</tr>
<tr>
<td></td>
<td>1996</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### CASH FLOWS FROM OPERATING ACTIVITIES:

<table>
<thead>
<tr>
<th></th>
<th>Inception</th>
<th>Fiscal Year Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>(8,132,938)</td>
<td>(3,897,879)</td>
</tr>
</tbody>
</table>

- Adjustments to reconcile net loss to net cash used for operating activities:
  - Depreciation and amortization: 308,574
  - Interest expense on related-party debt: 53,387
  - Accrued interest on long-term financing: 796,038
  - Accrued interest on short-term financing: 107,936
  - Intangibles and equipment write down: 278,318
  - Equity and notes payable issued for expenses: 296,047
  - Settlement with consultant: (28,731)
  - Changes in certain operating assets and liabilities:
    - Accounts receivable: (4,574)
    - Prepaid expenses and other: (66,430)
    - Intangibles: (427,337)
    - Accounts payable: 213,524
    - Accrued compensation owed to employees: 94,632
    - Accrued expenses: 683,928

Net cash used for operating activities: (5,827,626) (2,709,491) (1,059,467) (1,260,218)

### CASH FLOWS FROM INVESTING ACTIVITIES:

- Purchases of property and equipment: (335,229) (26,577) (4,294) (133,714)

### CASH FLOWS FROM FINANCING ACTIVITIES:

- Proceeds from notes payable, related party: 302,000
- Payments on notes payable, related party: (309,936) (23,286) (286,650)
- Proceeds from senior bridge notes payable: 1,850,000
- Payments on senior bridge notes: (850,000)
- Proceeds from notes payable and long-term financing: 1,951,327
- Payments on notes payable and long-term financing: (190,061) (65,000) (92,384)
- Proceeds from paid-in capital from common stock warrants: 100,000
- Proceeds from common stock, stock option issuances and preferred stock, net: 10,102,492
- Purchase of treasury stock: (1,667)
<table>
<thead>
<tr>
<th>Net cash provided by financing activities</th>
<th>12,954,155</th>
<th>9,053,350</th>
<th>1,315,374</th>
<th>676,335</th>
</tr>
</thead>
</table>

<table>
<thead>
<tr>
<th>NET INCREASE (DECREASE) IN CASH</th>
<th>6,791,300</th>
<th>6,317,282</th>
<th>251,613</th>
<th>(717,597)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CASH, beginning of period</td>
<td>474,018</td>
<td>222,405</td>
<td>940,002</td>
<td></td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>------------</td>
<td>------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
<tr>
<td>CASH, end of period</td>
<td>$ 6,791,300</td>
<td>$ 6,791,300</td>
<td>$ 474,018</td>
<td>$ 222,405</td>
</tr>
<tr>
<td>-----------------------------------------</td>
<td>------------</td>
<td>------------</td>
<td>-----------</td>
<td>-----------</td>
</tr>
</tbody>
</table>

The accompanying notes to consolidated financial statements are an integral part of these statements.

F-8
Inception                          Fiscal Year Ended
(January 28, 1986) Ten Months     August 31,
through          Ended          ---------------------------
----------         ----------             ----------  ----------  

SUPPLEMENTAL CASH FLOW INFORMATION:

- Cash paid for interest                  $ 77,523        $ 49,494        $ 28,029     $    -

NON-CASH TRANSACTION:

- Settlement of accounts payable with equipment                               $    900        $     -           $     -        $    900

NON-CASH STOCK ACTIVITY:

- Conversion of loans from employees to common stock                          $ 74,187        $     -           $     -        $     -

- Conversion of note payable to common stock                                  $ 16,000        $     -           $     -        $     -

- Common stock issued for equipment                                           $  2,327        $     -           $     -        $     -

- Common stock issued for expenses (included above)                           $285,332        $174,147        $ 10,350       $ 15,450

- Common stock issued for accrued salaries                                    $ 16,548        $     -           $  9,858       $  3,390

- Accrued interest payable in common stock                                    $375,926        $266,742        $109,183      $    -

The accompanying notes to consolidated financial statements are an integral part of these statements.

F-9
(1) ORGANIZATION ACTIVITIES:

Corporate Structure -- Palatin Technologies, Inc. ("Palatin"), formerly Interfilm, Inc., was incorporated under the laws of the State of Delaware on November 21, 1986. Since November 4, 1993, when Palatin acquired Interfilm Technologies, Inc., a New York corporation, it had been primarily engaged in the business of exploiting the rights related to its interactive motion picture process, including the production and distribution of interactive motion pictures for initial exhibition in theaters and subsequently in enhanced versions for distribution to the home market. Palatin's initial public offering was consummated on October 28, 1993. On May 10, 1995, the Board of Directors of Palatin decided to substantially curtail the operations of Palatin and its subsidiaries.

Merger -- On June 25, 1996, a newly formed, wholly-owned subsidiary of Palatin, Interfilm Acquisition Corporation ("InSub"), a New Mexico corporation, merged with and into RhoMed Incorporated ("RhoMed"), a New Mexico corporation, with all outstanding shares of RhoMed equity securities ultimately being exchanged for Palatin's common stock (the "Merger"). As a result of the Merger, RhoMed became a wholly-owned subsidiary of Palatin, with the holders of RhoMed preferred stock and RhoMed common stock (including the holders of "RhoMed Derivative Securities" as hereafter defined) receiving an aggregate of approximately 96% interest in the equity securities of Palatin on a fully-diluted basis. Additionally, all warrants and options to purchase common stock of RhoMed outstanding immediately prior to the Merger (the "RhoMed Derivative Securities"), including without limitation, any rights underlying RhoMed's qualified or nonqualified stock option plans, were automatically converted into rights upon exercise to receive Palatin's common stock in the same manner in which the shares of RhoMed common stock were converted. Since the former stockholders of RhoMed retained more than a 50% controlling interest in the surviving company (Palatin), the Merger was accounted for as a reverse merger. Certain assets and liabilities of Palatin and a subsidiary existing prior to the Merger, consisting principally of certain intellectual property and litigation claims against Sony Corporation of America and related entities, were transferred to an unaffiliated limited liability partnership for the benefit of Palatin stockholders of record as of June 21, 1996, immediately prior to the Merger. Pro forma combined operating results of the merged companies are not presented since the reverse merger is not a business combination for accounting purposes. The historical financial statements prior to June 25, 1996, are those of RhoMed, except that the net loss per common share has been stated on an as if converted basis. In addition, the Merger costs of $450,000 have been charged to operations for the ten months ended June 30, 1996, and accrued expenses include $231,635 of this amount as of June 30, 1996.

On July 19, 1996, an amendment to the Certificate of Incorporation of Palatin (the "Amendment") was filed, which (a) effected the change of name from Interfilm, Inc. to Palatin Technologies, Inc., (b) increased the total
number of authorized shares of Palatin's common stock, par value $.01 per share (the "Common Stock"), from 10,000,000 to 25,000,000, and (c) effected a 1-for-10 reverse split of Common Stock. Upon the filing of the Amendment, each share of RhoMed preferred stock was converted into .46695404349 shares of Common Stock, and each share of RhoMed common stock was converted into .184332593 shares of Common Stock. The consolidated financial statements have been adjusted to reflect the Amendment as if it had been filed on June 30, 1996.

Nature of Business -- Palatin, through its wholly-owned subsidiary, RhoMed, is a development stage enterprise dedicated to developing and commercializing products and technologies for diagnostic imaging, cancer therapy and ethical drug development based upon its proprietary monoclonal antibody, radiolabeling and enabling peptide platform technologies. Palatin had, prior to June 25, 1996, conducted no on-going business activities since May 10, 1995. The business of RhoMed, conducted by Palatin since June 25, 1996, when the Merger became effective, represents the on-going business of Palatin.

Since its inception, RhoMed has devoted substantially all of its efforts and resources to the research and development of its technology. RhoMed has experienced operating losses in each year since its inception and, as of June 30, 1996, Palatin, including its wholly-owned subsidiary RhoMed, had a deficit accumulated during the development stage of $8,132,938. Palatin expects to incur additional operating losses over the next several years and expects cumulative losses to increase as Palatin's research and development and clinical testing efforts continue and expand. The ultimate completion of Palatin's development projects is contingent upon a number of factors, including the successful completion of technology and product development, obtaining required regulatory approvals and additional financing and, ultimately, achieving profitable operations.

Change in Fiscal Year -- Effective June 30, 1996, Palatin and RhoMed each changed its fiscal year end to June 30. The fiscal year ends of Palatin and RhoMed prior to the Merger were December 31 and August 31, respectively.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation -- The consolidated financial statements include the accounts of Palatin and its wholly owned subsidiary, RhoMed. The remaining subsidiaries of Palatin - Interfilm Technologies, Inc., Ediflex Digital Systems, Inc. and Production Equipment Leasing Corp. LP - are inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

Accounting Basis -- The financial books and records of Palatin are maintained on the accrual basis of accounting. As a development stage enterprise, cumulative results of operations from inception are presented.
Cash -- For purposes of presenting cash flows, Palatin considers cash as amounts on hand, on deposit in financial institutions and highly liquid investments purchased with an original maturity of three months or less.

Equipment -- Equipment and office furniture are stated at cost, net of accumulated depreciation. Depreciation is recognized using an accelerated method over the estimated useful lives of 5 years for equipment, 7 years for office furniture and over the term of the lease for leasehold improvements. Maintenance and repairs are expensed as incurred while expenditures that extend the useful life of an asset are capitalized.

Patents -- Patents represent the costs capitalized to successfully obtain a patent registration. Internal costs to obtain and develop the patents have been expensed. Patents are included as intangible assets in the accompanying consolidated financial statements and are stated at cost, net of accumulated amortization. Amortization is recognized using the straight-line method over the estimated patent lives ranging up to 17 years. Unsuccessful patent costs and patents with no demonstrated future value are expensed when so determined by management.

Revenue Recognition -- The Company recognizes revenue as follows: grants and contracts - at the time such related expenses are incurred in compliance with contractual terms; license fees and royalties - ratably over the term of the license or royalty agreement; and sales - upon shipment of the product.

Research and Development Costs -- The costs of research and development activities are expensed as incurred.

Stock Options and Warrants -- Warrants and most common stock options have been issued at exercise prices greater than, or equal to, their fair market value at the date granted. Accordingly, no value has been assigned to these instruments. However, certain stock options were issued in the fiscal years ended August 31, 1995 and 1994 under a nonqualified stock option plan at an exercise price below market value. The difference between the exercise price and the market value of these securities has been included in general and administrative expense in the fiscal years ended August 31, 1995 and 1994, and as an addition to equity.


Palatin provides for deferred income taxes relating to timing differences in the recognition of income and expense items (primarily relating to depreciation, amortization and certain leases) for financial and tax reporting purposes. Such amounts are measured using current tax laws and regulations in accordance with the provisions of SFAS 109.

In accordance with SFAS 109, Palatin has recorded valuation allowances
against the realization of its deferred tax assets. The valuation allowance is based on management’s estimates and analysis, which includes tax laws which may limit Palatin’s ability to utilize its tax loss carryforwards.

Net Loss per Common Share -- Net loss per common share is calculated based upon the weighted average number of shares of Common Stock, on an as if converted basis, outstanding during each period. All options and warrants were excluded in the calculation of weighted average shares outstanding since their inclusion would have had an anti-dilutive effect.

Financial Statement Presentation -- Certain amounts in the accompanying consolidated financial statements have been reclassified and certain notes have been modified from previous financial statements to clarify disclosure.

Use of Estimates -- The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Pronouncements -- The Financial Accounting Standards Board has issued Statement of Financial Accounting Standards No. 123 (SFAS 123), “Accounting for Stock-Based Compensation.” SFAS 123 recommends changes in accounting for employee stock-based compensation plans, and requires certain disclosures with respect to these plans. The disclosures of SFAS 123 will be adopted by Palatin effective July 1, 1996. Management has not determined the effect of this pronouncement on the Company’s financial statements.

Fair Value of Financial Instruments -- Statement of Financial Accounting Standards No. 107 (SFAS 107), “Disclosures about Fair Value of Financial Instruments,” requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate the value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of Palatin.

The following methods and assumptions were used by Palatin in estimating its fair value disclosures for financial instruments: the carrying amount reported on the balance sheet approximates the fair value for cash, short-term borrowings and current maturities of long-term debt; and the fair value for Palatin’s fixed rate long-term debt is estimated based on the current rates offered to Palatin for debt of the same remaining maturities. Based on the
above, the amount reported on the balance sheet approximates the fair value.

(3) RELATED PARTY TRANSACTIONS:

Castle Transaction -- During the fiscal year ended August 31, 1995, RhoMed encountered serious liquidity and working capital deficiencies. As a result, effective April 1995, RhoMed entered into a letter of intent with The Castle Group Ltd. ("Castle"), a company controlled by Lindsay A. Rosenwald, M.D. ("Dr. Rosenwald"), under which Castle agreed to arrange for a line of credit of up to $300,000 to finance ongoing operations; agreed to arrange for future financings; and RhoMed agreed to sell to Castle or its designees, for $4,000 consideration paid, 4,000,000 shares of RhoMed Series A Preferred Stock (equivalent to 1,867,809 shares of Common Stock). At the time the letter of intent was entered into with Castle, RhoMed was insolvent and its equity had nominal value; accordingly, the sale of RhoMed Series A Preferred Stock to Castle or its designees was recorded at the nominal $4,000 consideration paid. The issuance of RhoMed Series A Preferred Stock to designees of Castle was consummated on October 25, 1995. This resulted in Dr. Rosenwald and his designees obtaining majority ownership and control of RhoMed. Pursuant to the letter of intent, Castle provided a $300,000 line of credit. RhoMed borrowed up to the maximum under the line of credit and, at August 31, 1995, had $23,286 outstanding thereunder, which was paid in September, 1995. The average interest rate for the line of credit was 10.90%, and the average balance outstanding was $191,549.

Dr. Rosenwald is the Chairman of Paramount Capital, Inc. ("Paramount"), which served as placement agent for RhoMed as set forth below. Commencing July 24, 1995, two of the then three members of the Board of Directors of RhoMed were employees of entities controlled by Dr. Rosenwald (the "Interested Directors"). These Interested Directors may have benefited, directly or indirectly, from the payment of commissions and expenses, and the issuance of warrants, to Paramount and affiliates. On July 28, 1995, RhoMed's Board of Directors approved an offering of Senior Bridge Notes and Class A Warrants (the "Class A Offering") (see Note 7), for which Paramount served as placement agent. Because the Interested Directors could be deemed to have a direct or indirect interest in a transaction involving a potential conflict of interest with RhoMed (a "Conflict Of Interest Transaction") contemplated under certain terms of the Class A Offering, the transaction was ratified by disinterested stockholders on August 15, 1995. In the Class A Offering, investment funds managed by a company of which Dr. Rosenwald is president purchased Senior Bridge Notes with a face value of $100,000, and Class A Warrants to purchase 300,000 shares of RhoMed common stock at $.01 per share (equivalent to 55,299 shares of Common Stock at $.05 per share).

On November 27, 1995, RhoMed's Board of Directors approved an offering of Senior Bridge Notes and Class B Warrants (the "Class B Offering") (see Note 7), for which Paramount served as placement agent. Because certain terms of the Class B Offering could also be deemed to be a Conflict of Interest Transaction, the Interested Directors recused themselves from voting on the matter, and the Class B Offering was approved by the two disinterested
directors. In the Class B Offering, investment funds managed by a company of which Dr. Rosenwald is president purchased Senior Bridge Notes with a face value of $100,000, and Class B Warrants to purchase 100,000 shares of RhoMed common stock at an adjusted exercise price of $.125 per share (equivalent to 18,433 shares of Common Stock at $.68 per share).

On March 4, 1996, the Board of Directors approved an offering of common stock (the "Common Stock Offering") (see Note 10), and authorized an offering committee of the Board of Directors, consisting of the two disinterested directors, to determine the placement agent for the Common Stock Offering. The selection of Paramount as placement agent was approved by the disinterested directors, who concluded that alternative means of financings were not available to RhoMed on terms more favorable than the Common Stock Offering. The price per share of RhoMed common stock in the Common Stock Offering of $.25 was determined through negotiations between RhoMed and Paramount. On May 14, 1996, the Board of Directors approved an increase in the Common Stock Offering, on which the Interested Directors recused themselves, and which was approved by the two disinterested directors. In the Common Stock Offering, investment funds managed by a company of which Dr. Rosenwald is president purchased 7,002,000 shares of RhoMed common stock at $.25 per share (equivalent to 1,290,696 shares of Common Stock at $1.36 per share).

Accrued Compensation -- At June 30, 1996 and August 31, 1995, RhoMed owed employees approximately $78,000 and $171,000, respectively, for accrued and unpaid compensation and related benefits. These amounts do not accrue interest and are included in accrued compensation in the accompanying consolidated financial statements. All such amounts are expected to be paid in fiscal year 1997.

Other Transactions -- There have been certain transactions between Palatin and certain related parties which have resulted in the exchange of assets or services for equity securities (see Note 10).

Management of Palatin believes that the terms of the transactions and the agreements described above are on terms at least as favorable as those which it could otherwise have obtained from unrelated parties.

(4) EQUIPMENT:

Equipment consists of the following at June 30, 1996 and August 31, 1995:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1996</th>
<th>August 31, 1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office equipment</td>
<td>$ 202,960</td>
<td>$ 183,322</td>
</tr>
</tbody>
</table>
Laboratory equipment                          76,929               69,989  
Leasehold improvements                           -                 57,668  

-------------         ------------

Equipment at cost                       279,889              310,979  
Less: Accumulated depreciation               183,535              176,611  

-------------         ------------

$      96,354         $    134,368  
=============         ============

(5) INTANGIBLES:

Palatin has obtained 11 United States (U.S.) patents and corresponding international applications have been issued or are pending in selected countries on a majority of issued U.S. patents. Palatin has applications pending for 17 additional U.S. patents, the majority of which have pending international counterparts in selected countries. Palatin has received Notices of Allowance, and has paid issue fees, on certain pending U.S. patent applications.

Based on an evaluation by the new President and Chief Executive Officer of RhoMed and his new management team (see Note 9) of products in development and determination of the likelihood of product development and commercialization, intangible assets relating to patents not being utilized for products in active development were written-off to expense. Historical costs in each patent were used to determine the total write-off to expense of $259,334.

Palatin has assigned its interest in several patents to secure long-term financing (see Note 6).

(6) LONG-TERM FINANCING:

Palatin has a long-term financing agreement with Aberlyn Holding Co., Inc., and its affiliates (collectively "Aberlyn"). Aberlyn has, in a series of transactions, loaned to Palatin approximately $1,800,000, secured by certain of Palatin's patents, intellectual property and equipment. Certain fees and costs related to the borrowings have been deferred as intangible assets and are being amortized over the remaining terms of the arrangement using the effective interest method. The agreement requires the accrual of certain interest as payable before it is earned; therefore, at any time before the scheduled payoff, the recorded long-term liability will be less than the total amount payable to settle the obligation.

Palatin is obligated, at June 30, 1996, to make monthly payments to Aberlyn of $20,000 from June 1, 1996 through May 1, 1997, and payments of $91,695 from June 1, 1997 through May 1, 1999. Payments through May 1, 1997 will be applied to principal only; interest will be accrued during this period at an annual effective rate of 15% and paid in Palatin's Common Stock. On June 24, 1996, RhoMed issued 930,023 shares of RhoMed common stock (equivalent...
to 171,433 shares of Common Stock) in payment of accrued interest of $324,546 through April 30, 1996, at an immaterial premium of approximately $.10 per share over the then fair market value of RhoMed common stock. In addition, certain warrants held by Aberlyn were terminated, and RhoMed agreed that Common Stock paid as interest through May 1, 1997, would contain certain registration rights, and would be valued at the rate of 75% of the per share offering price for RhoMed's common stock in any offering commencing after the consummation of the Common Stock Offering, in which the total offering proceeds exceeds $5,000,000, or in the event no such offering is completed before April 30, 1997, at the rate of 75% of the average per share closing price for the twenty trading days immediately preceding April 30, 1997. The 25% discount to market value of Common Stock will represent additional interest payable. However, management does not anticipate the additional interest will have a material impact on the financial position or operations of the Company.

Scheduled principal payments on the long-term financing through fiscal year 1999 at June 30, 1996, are as follows:

<table>
<thead>
<tr>
<th>Years ending June 30</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1997</td>
<td>$ 272,783</td>
</tr>
<tr>
<td>1998</td>
<td>697,317</td>
</tr>
<tr>
<td>1999</td>
<td>756,963</td>
</tr>
<tr>
<td>Total principal payments</td>
<td>1,727,063</td>
</tr>
<tr>
<td>Accrued interest</td>
<td>312,251</td>
</tr>
<tr>
<td>$ 2,039,314</td>
<td></td>
</tr>
</tbody>
</table>

(7) SENIOR BRIDGE NOTES:

The warrants set forth below were initially exercisable for RhoMed common stock and are so described. At Note 10 all outstanding warrants, including all RhoMed warrants, are shown as converted to Common Stock.

Class A Offering -- On July 28, 1995, the Board of Directors of RhoMed authorized an offering of up to 40 units at $25,000 per unit, with each unit consisting of a $25,000 face amount Senior Bridge Note and a Class A Warrant to purchase 75,000 shares of RhoMed common stock at an exercise price of $.01 per share (the "Class A Offering") (see Note 3). The nominal exercise price for the warrants reflected the seriously troubled financial condition of RhoMed on the date of the transaction, and accordingly no value was assigned to the Class A Warrants upon issuance. The Senior Bridge Notes sold in the Class A Offering bear interest at 1% per month, and are payable, with accrued interest, one year from the date of issuance. Class A Warrants are exercisable at any time, terminate ten years from the date of issuance, have certain registration rights, and are subject to adjustment in certain circumstances, including a stock split of, stock dividend on, or a subdivision, combination or recapitalization of, the Common Stock.
All Class A Offering units were purchased, with net proceeds to RhoMed of approximately $907,000 after payment of the placement agent's commissions and expenses ($90,000) and offering expenses (approximately $3,000). Paramount (see Note 3), served as placement agent for the offering and received (i) a cash commission equal to 6% of the gross proceeds from the sale of the units, (ii) a non-accountable expense allowance equal to 3% of gross proceeds and (iii) placement agent's warrants ("Class A Placement Agent Warrants"), on the same terms as the Class A Warrants, equal to 15% of the Common Stock underlying the Class A Warrants issued in the Class A Offering.

Class B Offering -- On November 27, 1995, the Board of Directors of RhoMed authorized an offering of up to 7.5 units at $100,000 per unit, with each unit consisting of a $100,000 face amount Senior Bridge Note and a Class B Warrant to purchase 100,000 shares of RhoMed common stock at an exercise price of the lesser of (a) $.25 per share and (b) 50% of the price per share of common stock in a subsequent equity offering of RhoMed common stock in which gross proceeds exceed $2,500,000 (the "Class B Offering"). Due to the seriously troubled financial condition of RhoMed on the date of the transaction, no value was assigned to the Class B Warrants upon issuance. On January 25, 1996, the Board of Directors increased the Class B Offering from 7.5 units to 8.5 units. The Senior Bridge Notes sold in the Class B Offering bore interest at 1% per month, and were payable, with accrued interest, at the earlier of (a) 5 days following the closing of an equity offering of RhoMed's securities in which gross proceeds exceeded $2,500,000 and (b) 12 months from the date of issuance. The Class B Warrants are exercisable at any time, terminate 5 years from the date of issuance, have certain registration rights, contain a call provision and are subject to adjustment in certain circumstances, including a stock split of, stock dividend on, or a subdivision, combination or recapitalization of, the Common Stock.

On February 15, 1996, the purchase of units was completed. Net proceeds to RhoMed were $739,500 after payment of the placement agent's commissions and expenses ($110,500). Paramount (see Note 3), served as placement agent for the Class B Offering and received (i) a cash commission equal to 9% of the gross proceeds from the sale of the units, (ii) a non-accountable expense allowance equal to 4% of gross proceeds and (iii) placement agent's warrants ("Class B Placement Agent Warrants"), at an exercise price of $.30 per share but otherwise on the same terms as the Class B Warrants, equal to 5% of the Common Stock underlying the Class B Warrants issued in the Class B Offering. On June 28, 1996, the Class B Offering Senior Bridge Notes with accrued interest were paid in full.

(8) NOTES PAYABLE TO STOCKHOLDERS:

At June 30, 1996 and August 31, 1995, notes payable to stockholders consisted of four ten year notes totaling $80,000 plus interest accrued thereon. These notes were issued as part of a combined stock and debt offering during the fiscal year ended August 31, 1992 (see Note 10). Each note is a promissory note from RhoMed to the purchaser in the face amount of $20,000, bearing interest at 10% per year, accruing annually. Principal and interest on the notes becomes due and payable on the earlier of (i) July 31,
2002, or (ii) 30 days after RhoMed, or its successor, receives net proceeds from a public offering of its common stock of at least $5,000,000 or (iii) 30 days after the end of a fiscal year in which, as reflected on the audited financial statements of RhoMed or its successor, RhoMed or its successor has net assets of at least $5,000,000 or net income of at least $5,000,000. The notes had a provision providing for conversion into common stock on the basis of one share of stock for each $1.50 of principal and accrued interest. As a result of the Merger, there is no longer a right to convert.

(9) COMMITMENTS AND CONTINGENCIES:

Leases -- Palatin leases certain of its facilities and equipment under noncancellable operating leases. The lease on the facility in Albuquerque, New Mexico expires on December 31, 1996. Minimum future annual lease payments at June 30, 1996, are approximately $55,000 in fiscal year 1997, and approximately $12,000 to $21,000 per year thereafter until fiscal year 2001. Certain leases have been personally guaranteed by one or more former officers of RhoMed.

Product Liability -- The testing, marketing and sale of human health care products entails an inherent risk of allegations of product liability. Palatin does not currently have product liability insurance coverage.

Restructuring Charge -- In conjunction with Palatin's decision to consolidate and relocate its research and development facilities and executive offices in the New Jersey area, Palatin established a restructuring charge of $284,000. The restructuring charge represents severance costs of $115,000 and facility closing expenses of $169,000. It is anticipated that eight research and development and administration and management employees will be severed; through June 30, 1996, five employees had been severed. Facility closing expenses consist primarily of costs related to lease termination and fixed asset disposals. Included in accrued expenses at June 30, 1996, is $257,152 of remaining restructuring charge.

Commitments -- On November 27, 1995, the Board of Directors of RhoMed ratified an employment agreement (the "Employment Agreement") with Edward J. Quilty ("Mr. Quilty") to serve as President and Chief Executive Officer of RhoMed. Pursuant to the Agreement, RhoMed agreed to grant Mr. Quilty an option to acquire such number of shares of common stock as equal a 10% fully diluted equity interest in RhoMed at an exercise price of $.01 per share, which option vests in 36 equal increments on each of the first 36 monthly anniversaries of the commencement of Mr. Quilty's employment with RhoMed, and may be accelerated or terminated in part on the happening of certain events (the "Initial Option"). The Agreement further provides for anti-dilutive options, pursuant to which Mr. Quilty will be issued options to acquire the number of shares that, when aggregated with the shares issuable pursuant to the Initial Option, equal not less than 3.75% of the shares of common stock of RhoMed. The Agreement is for an initial period of one year, with automatic one year extensions, and provides that, on certain termination events, the portion of the options that would otherwise have terminated without vesting, vest and are exercisable upon termination, and also provides for specified
termination pay.

Palatin is obligated under two consulting agreements to make payments of $157,000 in fiscal year 1997 and $76,500 in fiscal year 1998.

Legal Proceedings -- Palatin is subject to various claims and litigation in the ordinary course of its business, including patent proceedings. Management believes that the outcome of such legal proceedings will not have a material adverse effect on Palatin's financial position or future results of operation.

(10) STOCKHOLDERS' EQUITY (DEFICIT):

Palatin Authorized Shares -- The authorized capital stock of Palatin at the time of the Merger consisted of 10,000,000 Common Stock shares and 2,000,000 shares of preferred stock, $.01 par value per share. On July 19, 1996, Palatin's Certificate of Incorporation was amended to, among other things, increase the number of shares of authorized Common Stock to 25,000,000 and to effect a 1-for-10 reverse split of the Common Stock. The consolidated financial statements have been adjusted to reflect the amendment to the Certificate of Incorporation.

RhoMed Authorized Shares -- By Articles of Amendment approved by RhoMed's stockholders on April 4, 1996 and filed April 10, 1996, RhoMed amended its Articles of Incorporation to increase its authorized common stock from 40,000,000 to 60,000,000 shares with no par value. By Articles of Amendment approved by RhoMed's stockholders on May 24, 1996 and filed June 7, 1996, RhoMed amended its Articles of Incorporation to increase its authorized common stock from 60,000,000 to 90,000,000 shares with no par value. RhoMed has 10,000,000 shares of authorized preferred stock, no par value.

Stock Transactions -- On March 4, 1996, the Board of Directors of RhoMed authorized an offering of up to 40 units at $100,000 per unit, with each unit consisting of 400,000 shares of RhoMed common stock at a purchase price of $.25 per share (the "Common Stock Offering") (equivalent to 73,733 shares per unit at a purchase price of $1.36 per Palatin Common Stock share). On May 14, 1996, the Board of Directors authorized an increase in the Common Stock Offering of up to 100 units. Paramount served as placement agent for the Common Stock Offering and received (i) a cash commission equal to 9% of the gross proceeds from the sale of the units, (ii) a non-accountable expense allowance equal to 4% of gross proceeds and (iii) placement agent's warrants ("Stock Offering Placement Agent Warrant"), equal to 10% of the common stock issued in the Common Stock Offering, at an exercise price of $.30 per RhoMed common stock share (equivalent to $1.63 per Palatin Common Stock share), which are freely exercisable and terminate ten years from the date of issuance, have certain registration rights, and are subject to adjustment in certain circumstances. On June 24, 1996, RhoMed terminated the Common Stock Offering. RhoMed sold 96,454 units, realizing net proceeds of approximately $8,391,000, and issued 38,581,600 shares of RhoMed common stock (equivalent to 7,111,846 shares of Common Stock).
On June 24, 1996, and pursuant to the Merger, certain stockholders of Interfilm prior to the Merger and third parties purchased 3,000,000 shares of RhoMed common stock at a purchase price of $.25 per share, with net proceeds to RhoMed of approximately $748,000 (equivalent to 552,997 shares of Common Stock at a purchase price of $1.36). Also, and pursuant to the Merger, warrants to purchase 1,500,000 shares of RhoMed common stock at an exercise price of $.40 were issued to certain stockholders of Interfilm prior to the Merger and third parties ("Merger Warrants") (equivalent to 276,499 shares of Common Stock at an exercise price of $2.17). The Merger Warrants are exercisable at any time, terminate four years from the date of issuance, have certain registration rights, contain a call provision and are subject to adjustment in certain circumstances.

In the ten months ended June 30, 1996, RhoMed issued 124,525 shares of RhoMed common stock (equivalent to 22,954 shares of Common Stock) in exchange for services, and Palatin issued 103,017 shares of Common Stock in exchange for services. In addition, RhoMed has issued stock for accrued interest, and Palatin is obligated to issue additional stock in payment of accrued interest (see Note 6).

RhoMed commenced a private offering of preferred stock in fiscal year 1994, and a private offering of units consisting of RhoMed common stock and common stock warrants in fiscal year 1995, both of which were terminated without having raised the minimum required for closing. Stock issuance costs incurred in connection with both offerings were expensed to operations in the fiscal year in which such costs were incurred.

In February 1993, RhoMed issued a private offering memorandum for the sale of securities, consisting of units of 10,000 shares of RhoMed common stock for $10,000 per unit ($1.00 per share). RhoMed sold 58.4 units, realizing net proceeds of approximately $577,000.

In September 1992, RhoMed issued a private offering memorandum for the sale of securities, consisting of units of 33,333 shares of RhoMed common stock for $25,000 per unit ($.75 per share). RhoMed sold 8 units, realizing net proceeds of approximately $191,000.

In December 1991, RhoMed issued a private offering memorandum for the sale of units consisting of 26,289 shares of RhoMed common stock and a $20,000 note (see Note 8). Four units were sold for $25,000 per unit.

RhoMed common stock issuance prices represented market value of the RhoMed common stock on the date of issuance.

Outstanding Stock Purchase Warrants -- At June 30, 1996, Palatin had the following warrants outstanding, all of which are currently exercisable except 11,111 warrants included in "Other Warrants." Each warrant is restated as Common Stock:
The table below presents options in RhoMed common stock, with conversion to Common Stock shown as "Restated to Palatin Options." The "Outstanding" and "Exercisable" as of June 30, 1996, are stated as Common Stock. Information related to stock option activity under these plans for the period from inception to June 30, 1996 is as follows:
<table>
<thead>
<tr>
<th>Incentive Stock Options</th>
<th>Nonqualified Stock Options</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Number</td>
</tr>
<tr>
<td></td>
<td>of Shares</td>
</tr>
<tr>
<td>-------------------------</td>
<td>-----------</td>
</tr>
<tr>
<td>Balance at inception</td>
<td>$</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>628,750</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>37,000</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>591,750</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>99,000</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>193,750</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>1,486,126</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>(6,576,078)</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>1,512,876</td>
</tr>
<tr>
<td>Permitted achievement</td>
<td>214,472</td>
</tr>
</tbody>
</table>

No options have been exercised since inception.

(11) GRANTS, CONTRACTS AND ROYALTIES:

Pursuant to contract with the New Mexico Research and Development Institute to develop products for medical research and diagnostic imaging, for which all work has now been completed, the State of New Mexico earns (i) a 2% royalty on gross revenues for products developed under the contract and manufactured in New Mexico and (ii) a 5% royalty on products manufactured outside New Mexico, subject to maximum repayment limits over specified time frames.

RhoMed applies for and has received grants and contracts under the Small Business Innovative Research (SBIR) program and other federally funded grant and contract programs. Since inception, approximately $2,526,000 of RhoMed’s revenues have been derived from federally or state funded grants and contracts. Under federal grants and contracts, there are no royalties or other forms of repayment; however, in certain limited circumstances the government can acquire rights to technology which is not being commercially exploited. Most contract costs, including indirect costs, are subject to audit and adjustment by negotiation with government representatives.

RhoMed also engages in contract development work with private sector companies, both foreign and domestic. From inception to August 31, 1995, RhoMed’s contract revenues from such private sector companies are
approximately $335,000.

RhoMed has solicited and performed cooperative research and development agreements with various national laboratories of the Department of Energy, which did not involve any payment of funds to the Department of Energy or its contractors by RhoMed and were cancelable by RhoMed upon less than six month's notice to the relevant contractor.

(12) LICENSING AGREEMENTS:

RhoMed entered into a license agreement, effective November 2, 1992, with Sterling Winthrop, Inc., a major pharmaceutical company ("Sterling"), under which RhoMed granted to Sterling (i) a non-exclusive license to certain patented radiolabeling technology for imaging uses and (ii) an option to acquire a license on similar terms for therapeutic uses. The license agreement is renewable annually and provides for certain license fee payments to RhoMed together with milestone payments on product development and percentage of sales production royalties. During the fiscal years ended August 31, 1995 and 1994, RhoMed received $50,000 in royalties and option payments under the license agreement. During the fiscal year ended August 31, 1994, the license agreement was assigned by Sterling to Burroughs Wellcome Co., a major pharmaceutical company, in conjunction with the purchase of certain assets of Sterling by Burroughs Wellcome Co. Concurrently with entering into the license agreement, RhoMed entered into a development agreement, which expired December 31, 1993, with Sterling, under which RhoMed performed specified product development services for $125,000, of which $25,000 is included in grant and contract revenue for the fiscal year ended August 31, 1994.

RhoMed entered into a license agreement, effective May 1, 1992, with Rougier Bio-Tech Limited, a foreign biotechnology concern ("Rougier"), under which RhoMed granted Rougier an exclusive license to certain patented radiolabeling technology for a defined field-of-use. The agreement, which is for the life of the patents and is renewable annually, provides for license fee payments to RhoMed and percentage of sales production royalties with a minimum annual royalty. Under this agreement, $7,500 of royalties and fees were paid to RhoMed in the fiscal year ended August 31, 1995.

(13) INCOME TAXES:


RhoMed has had no income tax expense or benefit since inception because of operating losses. Deferred tax assets and liabilities are determined based on the estimated future tax effect of differences between the financial statements and tax reporting basis of assets and liabilities, given the provisions of the tax laws. A valuation allowance for the net deferred tax assets has been recorded at June 30, 1996, based on the weight of evidence that the deferred tax assets exceed the likely reversal of deferred tax
liabilities and likely taxable income. The difference between the expected benefit of the federal tax rate of 34% and the actual benefit of zero is due to this valuation allowance. Significant components of deferred tax assets and liabilities are as follows:

June 30, 1996                   August 31, 1995
---------------                 ----------------

Deferred tax assets:
- Payroll compensation accruals                                     $    39,887                     $     84,088
- Restructuring accrual                                                  55,484                                -
- Net operating losses                                                2,793,025                        1,596,736
- Other                                                                  43,710                           32,766
-----------                     ------------

Total gross deferred tax assets                                        2,932,106                        1,713,584

Less: Valuation allowance                                             (2,915,557)                      (1,603,744)

-----------                     ------------

Deferred tax assets, net                                                  16,549                          109,840

-----------                     ------------

Deferred tax liabilities:
- Basis difference in intellectual and proprietary property                (12,516)                        (109,291)
- Other                                                                  (4,033)                            (549)
-----------                     ------------

Total gross deferred tax liabilities                                  (16,549)                        (109,840)

-----------                     ------------

Deferred tax assets (liabilities), net                                  $         -                    $           -

The Tax Reform Act of 1986 imposes limitations on the use of net operating loss carryforwards if certain stock ownership changes occur. As a result of the change in majority ownership relating to the Castle transaction (see Note 3), the Common Stock Offering (see Note 10) and the Merger (see Note 1), under Internal Revenue Code Section 382, RhoMed most likely will not be able to utilize its net operating loss carryforwards after the dates of ownership change. Thus, Palatin most likely will not be able to realize the benefit of any or all of RhoMed's net operating loss carryforwards in the future.

Furthermore, due to the Merger, Palatin applied to the Internal Revenue Service to change its year end to June 30 from December 31. Internal Revenue Service approval of this change is still pending.

Income tax returns for RhoMed for the years ended August 31, 1995 and 1994 have not been filed; however, management believes that since there is no tax liability, there will be no material adverse effect on Palatin.

(14) COMPARISON WITH TEN MONTHS ENDED JUNE 30, 1995:

As noted above (see Note 1), Palatin changed its fiscal year end to June 30. Therefore, the following June 30, 1995, selected financial information, adjusted to reflect the amendment to the Certificate of
Incorporation of Palatin as if it had been filed on June 30, 1995, and as if the Merger had been consummated on June 25, 1995, is presented for comparative purposes only (unaudited):

<table>
<thead>
<tr>
<th></th>
<th>1996</th>
<th>1995</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenues</td>
<td>$ 24,457</td>
<td>$ 94,842</td>
</tr>
<tr>
<td>Expenses</td>
<td>2,779,573</td>
<td>1,076,473</td>
</tr>
<tr>
<td>Other income (expenses)</td>
<td>(1,142,763)</td>
<td>(305,615)</td>
</tr>
<tr>
<td>Net loss</td>
<td>$(3,897,879)</td>
<td>$(1,287,246)</td>
</tr>
<tr>
<td>Weighted average number of common shares outstanding</td>
<td>2,144,131</td>
<td>1,230,550</td>
</tr>
<tr>
<td>Net loss per common share</td>
<td>$(1.82)</td>
<td>$(1.05)</td>
</tr>
</tbody>
</table>

F-23

EX-23.2
2
CONSENT OF ARTHUR ANDERSEN LLP

[letterhead of Arthur Andersen LLP]

CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation in this Form 10-KSB/A Amendment No. 1 of our report dated July 31, 1996. It should be noted that we have not audited any financial statements of PALATIN TECHNOLOGIES, INC. AND SUBSIDIARIES subsequent to June 30, 1996 or performed any audit procedures subsequent to the date of our report.

/s/ Arthur Andersen LLP

Albuquerque, New Mexico
July 15, 1997