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PALATIN TECHNOLOGIES, INC. 10-QSB FOR 9/30/97

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

----------------------------------------------------------------------------
FORM 10-QSB

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

For the quarterly period ended September 30, 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 0-22686
As of November 12, 1997, 3,051,466 shares of the Issuer's common stock, par value $.01 per share, were outstanding.

Transitional Small Business Disclosure Format: | | Yes | X | No

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
CONSOLIDATED BALANCE SHEETS

<table>
<thead>
<tr>
<th></th>
<th>September 30, 1997</th>
<th>June 30, 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, including restricted cash of $185,000 and $201,211, respectively</td>
<td>$9,552,896</td>
<td>$12,806,717</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>485,529</td>
<td>84,562</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>150,841</td>
<td>174,996</td>
</tr>
<tr>
<td>Total current assets</td>
<td>10,189,266</td>
<td>13,066,275</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>1,411,297</td>
<td>922,096</td>
</tr>
</tbody>
</table>

Page 2
Intangibles, net of accumulated amortization of $107,017 and $103,743, respectively ........................................ 79,181 74,494

$ 11,679,744 $ 14,062,865

LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities:
- Accounts payable .......................................................... $ 227,183 $ 316,273
- Accrued expenses .......................................................... 1,126,319 1,472,905
- Current portion of long-term financing ...................................... 907,608 869,549
- Notes payable ....................................................................... 80,000 80,000

Total current liabilities .......................................................... 2,341,110 2,738,727

Deferred license revenue .......................................................... 550,000 550,000

Long-term financing .................................................................. 697,881 939,590

3,588,991 4,228,317

Commitments and contingencies

Stockholders' equity:
- Preferred stock, $.01 par value, 10,000,000 shares authorized and 137,780 shares issued as of September 30, 1997 and June 30, 1997, respectively ........................................... 1,378 1,378
- Common stock, $.01 par value, 75,000,000 shares authorized and 3,051,478 and 3,020,373 issued as of September 30, 1997 and June 30, 1997, respectively ...................... 30,515 30,204
- Additional paid-in capital ....................................................... 23,811,737 23,740,864
- Warrants ............................................................................ 573,537 573,537
- Deferred Compensation ....................................................... (927,619) (1,078,333)
- Deficit accumulated during development stage ......................... (15,398,795) (13,433,102)

8,090,753 9,834,548

$ 11,679,744 $ 14,062,865

The accompanying notes to consolidated financial statements are an integral part of these statements.
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>$33,967</td>
<td>$22,184</td>
<td>$3,244,652</td>
</tr>
<tr>
<td>License fees and royalties</td>
<td></td>
<td></td>
<td>684,296</td>
</tr>
<tr>
<td>Product Sales</td>
<td></td>
<td>22,184</td>
<td>318,917</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>$33,967</td>
<td>$22,184</td>
<td>$4,247,865</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>1,389,782</td>
<td>645,972</td>
<td>9,196,173</td>
</tr>
<tr>
<td>General and administrative</td>
<td>680,234</td>
<td>496,445</td>
<td>8,233,078</td>
</tr>
<tr>
<td>Restructuring charge</td>
<td></td>
<td></td>
<td>284,000</td>
</tr>
<tr>
<td>Net intangibles write down</td>
<td></td>
<td></td>
<td>259,334</td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>2,070,016</td>
<td>1,142,417</td>
<td>17,972,585</td>
</tr>
<tr>
<td><strong>OTHER INCOME (EXPENSES):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>145,879</td>
<td>72,124</td>
<td>513,268</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(75,523)</td>
<td>(129,271)</td>
<td>(1,493,373)</td>
</tr>
<tr>
<td>Placement agent commissions and</td>
<td></td>
<td></td>
<td>(168,970)</td>
</tr>
<tr>
<td>fees on debt offering</td>
<td></td>
<td></td>
<td>(525,000)</td>
</tr>
<tr>
<td>Merger costs</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Total other income (expenses)</td>
<td>70,356</td>
<td>(57,147)</td>
<td>(1,674,075)</td>
</tr>
<tr>
<td><strong>NET LOSS</strong></td>
<td>(1,965,693)</td>
<td>(1,177,380)</td>
<td>(15,398,795)</td>
</tr>
<tr>
<td>Preferred stock dividend</td>
<td></td>
<td></td>
<td>(2,888,935)</td>
</tr>
<tr>
<td><strong>NET LOSS ATTRIBUTABLE TO</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Common stockholders</td>
<td>$(1,965,693)</td>
<td>$(1,177,380)</td>
<td>$(18,287,730)</td>
</tr>
<tr>
<td>Weighted average number of common shares outstanding</td>
<td>3,038,406</td>
<td>2,884,407</td>
<td>613,552</td>
</tr>
<tr>
<td>Net loss per common share</td>
<td>(0.65)</td>
<td>(0.41)</td>
<td>(29.81)</td>
</tr>
</tbody>
</table>
The accompanying notes to consolidated financial statements are an integral part of these statements.

PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
CONSOLIDATED STATEMENTS OF CASH FLOWS

INCEPTION
(JANUARY 28, 1986)
THREE MONTHS ENDED SEPTEMBER 30, THROUGH
--------------  --------------  ------------------

CASH FLOWS FROM OPERATING ACTIVITIES:

- Net loss ...............................................  $(1,965,693)  $(1,177,380)  $(15,398,795)
- Adjustments to reconcile net loss to net cash used for operating activities:
  - Depreciation and amortization ......................  29,975  15,218  404,469
  - Interest expense on note payable ...................  3,382  2,000  76,073
  - Accrued interest on long-term financing ............  86,242  796,938
  - Accrued interest on short-term financing ..........  (100,000)  7,936
  - Intangibles and equipment write down ...............  278,318
  - Equity and notes payable issued for expenses ......  546,188
  - Settlement with consultant ........................  (28,731)
  - Deferred license revenue ...........................  550,090
  - Amortization of deferred compensation ..............  215,714  610,997
- Changes in certain operating assets and liabilities:
  - Accounts receivable ..............................  (400,967)  (14,714)  (485,529)
  - Prepaid expenses and other .......................  24,154  22,214  150,842
  - Intangibles ......................................  (7,961)  (11,736)  (439,651)
  - Accounts payable .................................  (30,124)  226,283
  - Accrued expenses .................................  1,112,933

Net cash used for operating activities .......  (1,940,903)  (1,364,204)  (11,895,213)

CASH FLOWS FROM INVESTING ACTIVITIES:

- Purchases of property and equipment ..................  (1,115,452)  (53,610)  (1,730,386)

CASH FLOWS FROM FINANCING ACTIVITIES:

- Proceeds from notes payable, related party ..........  302,000
- Payments on notes payable, related party ............  (309,936)
- Proceeds from senior bridge notes payable ..........  1,850,000
- Payments on senior bridge notes ....................  (1,000,000)  (1,850,000)
- Proceeds from notes payable and long-term financing ....  1,951,327
Payments on notes payable and long term financing ..................................       (203,650)        (60,000)       (623,886)
Proceeds from common stock, stock option issuance's, net ......................................          6,184            --        10,223,626
Proceeds from preferred stock .................................................             --              --        11,637,031
Purchase of treasury stock .............................................           --              (250)         (1,667)

Net cash used for financing activities ......       (197,466)     (1,060,250)     23,178,495

NET DECREASE IN CASH .....................................     (3,253,821)     (2,478,064)      9,552,896

CASH AND CASH EQUIVALENTS, beginning of period ..........     12,806,717       6,791,300            --

CASH AND CASH EQUIVALENTS, end of period .................   $  9,552,896    $  4,313,236    $  9,552,896

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

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PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements (Unaudited)

(1) ORGANIZATION ACTIVITIES:

Nature of Business -- Palatin Technologies, Inc. ("Palatin" or the "Company") is a development stage enterprise dedicated to developing and commercializing products and technologies for diagnostic imaging, cancer therapy and ethical drug development utilizing peptide, monoclonal antibody and radiopharmaceutical technologies.

Business Risk -- Since its inception, the Company has devoted substantially all of its efforts and resources to the research and development of its technologies. The Company has experienced operating losses in each year since its inception and, as of September 30, 1997, the Company had a deficit accumulated during the development stage of $15,398,795. The Company expects to incur additional operating losses over the next several years and expects cumulative losses to increase as research and development and clinical testing efforts continue and expand. The ultimate completion of the Company'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.

Charter Amendment -- On September 5, 1997, an amendment to the Restated Certificate of Incorporation of the Company (the "Amendment") was filed, which (i) increased the total number of authorized shares of common stock (the "Common Stock") from 25,000,000 to 75,000,000, (ii) increased the total number of authorized shares of preferred stock from 2,000,000 to 10,000,000 and (iii) effected a 1-for-4 reverse split of Common Stock. The consolidated financial statements have been retroactively restated to reflect the Amendment.

(2) BASIS OF PRESENTATION:

The accompanying financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). Certain information and footnote disclosure normally included in the Company's audited annual financial statements has been condensed or omitted in the Company's interim financial statements. In the opinion of the Company, these financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of September 30, 1997 and June 30, 1997, and the results of operations for the three month period ended September 30, 1997 and 1996 and cash flows for the three months ended September 30, 1997 and 1996, and for the period from inception (January 28, 1986) to September 30, 1997. The results of operations for the interim period may not necessarily be indicative of the results of operations expected for the full year, except that the Company expects to incur a significant loss for the fiscal year ended June 30, 1998.

The accompanying financial statements and the related notes should be read in conjunction with the Company's audited financial statements for the fiscal year ended June 30, 1997, the ten months ended June 30, 1996 and the fiscal year ended August 31, 1995 filed with the Company's report on Form 10-KSB for the fiscal year ended June 30, 1997.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation - The consolidated financial statements include the accounts of Palatin and its wholly owned subsidiary, RhoMed Incorporated ("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.

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.
Cash and Cash Equivalents - For purposes of presenting cash flows, the Company considers cash and cash equivalents as amounts on hand, on deposit in financial institutions and highly liquid investments purchased with an original maturity of three months or less.

Revenue Recognition -- The Company recognizes revenue on 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.

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

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, in the aggregate, an anti-dilutive effect.

In February 1997, the Financial Accounting Standards Board issued Statement of Financial Accounting Standard No. 128 (“SFAS 128”), “Earnings per Share.” The statement is effective for financial statements for periods ending after December 15, 1997, and changes the method in which earnings per share will be determined. Adoption of this statement by the Company will not have a material impact on earnings per share.

(4) PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at:

<table>
<thead>
<tr>
<th></th>
<th>September 30, 1997</th>
<th>June 30, 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office equipment</td>
<td>$332,069</td>
<td>$263,827</td>
</tr>
<tr>
<td>Laboratory equipment</td>
<td>211,867</td>
<td>145,310</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>1,131,112</td>
<td>750,008</td>
</tr>
<tr>
<td></td>
<td>1,675,048</td>
<td>1,159,145</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>263,751</td>
<td>237,049</td>
</tr>
<tr>
<td></td>
<td>$1,411,297</td>
<td>$922,096</td>
</tr>
</tbody>
</table>

(5) COMMITMENTS AND CONTINGENCIES:

Construction -- The Company has constructed a research and development facility in Edison, New Jersey. The Company is committed to a construction contract for approximately $55,580 as of September 30, 1997. The remaining services under such contract are expected to be completed in fiscal 1998.

Leases -- The Company leases two facilities in New Jersey under
noncancellable operating leases. Future minimum lease payments under those two leases are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Payment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>$212,000</td>
</tr>
<tr>
<td>1999</td>
<td>216,000</td>
</tr>
<tr>
<td>2000</td>
<td>223,000</td>
</tr>
<tr>
<td>2001</td>
<td>253,000</td>
</tr>
<tr>
<td>2002</td>
<td>255,330</td>
</tr>
<tr>
<td>2003 and thereafter</td>
<td>1,022,388</td>
</tr>
</tbody>
</table>

Employment Agreements -- On November 27, 1996, the Board of Directors of the Company ratified an employment agreement (the "Employment Agreement") with Edward J. Quilty ("Mr. Quilty") to serve as President and Chief Executive Officer, originally entered into with RhoMed prior to the Merger. Pursuant to the Employment 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 the Company at an exercise price of $.22 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 the Company, and may be accelerated or terminated in part on the happening of certain events (the "Initial Option"). The Employment Agreement further provides for anti-dilution 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 the Company. The Employment 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.

On September 27, 1996, the Board of Directors ratified two employment agreements with two of the officers of the Company. The agreements expire in June 1999 and provide for current annual salaries of $160,500. The agreements include specified termination pay and accelerated vesting of stock options under certain termination events.

Consulting Agreements -- The Company is obligated under two consulting agreements to make payments totaling $76,500 in fiscal 1998.

License Agreements -- The Company has two license agreements which require minimum yearly payments. Future minimum payments under the license agreements are as follows: 1998 - $100,000, 1999 - $100,000, 2000 - $125,000, 2001 - $50,000 and 2002 - $50,000.

Legal Proceedings -- The Company is subject to various claims and litigation in the ordinary course of its business. Management believes that the outcome of such legal proceedings will not have a material adverse effect on the Company’s financial position or future results of operation.
ITEM 2. 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-QSB. Unless otherwise indicated herein, all references to the Company include Palatin Technologies, Inc. and its wholly owned subsidiary, RhoMed.

Certain statements in this Form 10-QSB contain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Such forward-looking statements involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the Company, or industry results, to be materially different from any future results, performance, or achievements express or implied by such forward looking statement.

The Company's business is subject to significant risks, including the uncertainties associated with product development of pharmaceutical products, problems or delays with clinical trials, failure to receive or delays in receiving regulatory approval, lack of enforceability of patents and proprietary rights, industry capacity, industry trends, competition, material costs and availability, changes in business strategy or development plans, quality of management, availability of capital, availability of qualified personnel, the effect of government regulation and other risks detailed in the Company's Commission filings, including the Company's Form 10-KSB for the year ended June 30, 1997. The Company expects to incur substantial operating losses over the next several years due to continuing expenses associated with its research and development programs, including pre-clinical testing, clinical trials and manufacturing. Operating losses may also fluctuate from quarter to quarter as a result of differences in the timing of when expenses are incurred.

RESULTS OF OPERATIONS

Three Month Period Ended September 30, 1997 Compared to Three Month Period Ended September 30, 1996.

Grants and contracts - During the three month period ended September 30, 1997, the Company completed its four Phase I grants under the Small Business Innovative Research program with the National Institutes of Health of the Department of Health and Human Services. Grant revenue from these grants was $33,967 in the three month period ended September 30, 1997, compared to no revenues in the three month period ended September 30, 1996.

Sales - There was no revenue from the sale of products in the three month period ended September 30, 1997, compared to $22,184 in the three month period.
ended September 30, 1996. During the fiscal year ended June 30, 1997 the Company discontinued the manufacture and sale of RhoChek, the sole product sold by the Company, due to insufficient sales.

Research and development expenses increased to $1,389,782 for the three month period ended September 30, 1997 compared to $645,972 for the three month period ended September 30, 1996. The Company substantially increased research and development spending, primarily relating to development of the LeuTech product for diagnostic imaging of infections, including increased expenses for manufacturing scale-up, consulting and clinical trials, and also relating to research expenses on the Company’s MIDAS technology. The Company expects research and development expenses to continue to increase in future quarters as the Company expands manufacturing efforts and initiates clinical trials on the LeuTech product and significantly expands its efforts to develop the MIDAS technology, including the hiring of scientists and the acquisition of equipment and supplies.

General and administrative expenses increased to $680,234 for the three month period ended September 30, 1997 compared to $496,445 for the three month period ended September 30, 1996. The increase in general and administrative expenses were mainly attributable to the amortization, totaling $216,000, of the value of options issued to consultants and the value of options granted at exercise prices below the then current market price of the Company’s Common Stock. General and administrative expenses are expected to remain consistent with the current levels through the remainder of fiscal year 1998.

Interest income increased to $145,879 for the three month period ended September 30, 1997 compared to $72,124 for the three month period ended September 30, 1996. The increase in interest income is primarily the result of interest on net proceeds from the Company’s Series A Convertible Preferred Stock Offering.

Interest expense decreased to $75,523 for the three month period ended September 30, 1997 compared to $129,271 for the three month period ended September 30, 1996. The decrease is mainly due to the repayment by the Company of certain notes, the principal amount of which was $1,000,000, in August and September of 1996. Interest expense is expected to remain at current levels through the remainder of fiscal year 1998.

Net loss increased to $1,965,693 for the three month period ended September 30, 1997 compared to $1,177,380 for the three month period ended September 30, 1996.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has incurred net operating losses and, as of September 30, 1997, had an accumulated deficit of $15,398,795. The Company has financed its net operating losses through September 30, 1997 by a series of debt and equity financings. At September 30, 1997, the Company had cash and cash equivalents of $9,552,896.

For the three months ended September 30, 1997, the net decrease in cash amounted to $3,253,821. Cash used for operating activities was $1,940,903, net cash used for investing activities was $1,115,452, and cash used for financing activities was $197,466.
Pursuant to the License Option Agreement with Nihon Medi-Physics Ltd. ("Nihon"), Nihon can maintain its option to license certain products based on the Company's MIDAS technology provided Nihon makes certain milestone payments based on progress in product development. Nihon may exercise its right to negotiate a license at any time upon notice and payment of additional monies to the Company. In the event that the parties cannot agree on terms of a license agreement, then the Company may be required to repay $550,000 to Nihon. There can be no assurance that the Company and Nihon will ever enter into a definitive license agreement, that additional payments provided for in the License Option Agreement will be made, or that a strategic alliance between the Company and Nihon will result in the development or commercialization of any product.

Pursuant to the terms of certain notes payable to stockholders, the principal of which aggregates $80,000, repayment of principal and interest is required in the second quarter of the fiscal year ending June 30, 1998.

The Company's monthly payments on long-term financing provided by Aberlyn Holding Company are $91,695, representing payment of current interest and principal. The final monthly payment is scheduled to be made in May 1999.

In March 1997, the Company entered into a ten-year lease on research and development facilities in Edison, New Jersey, with the lease term expected to commence August 1, 1997. Minimum future lease payments escalate from approximately $116,000 per year to $200,000 per year after the fifth year of the lease term. The lease will expire in fiscal year 2007.

Effective August 1, 1997, the Company entered into a five-year lease on administrative offices in Princeton, New Jersey. Minimum future lease payments are approximately $97,000 per year.

The Company has entered into two license agreements, which require minimum yearly payments. Future minimum payments under the license agreements are as follows: 1998 - $100,000, 1999 - $100,000, 2000 - $125,000, 2001 - $50,000 and 2002 - $50,000.

The Company believes that it has sufficient cash and cash equivalents to fund the Company's projected debt obligations and fund projected operations for fiscal year 1998.

The Company expects to continue actively searching for certain products and technologies to license or acquire in the future. If the Company is successful in identifying a product or technology for acquisition, substantial funds may be required for such acquisition and subsequent development or commercialization. To date, the Company has not completed an acquisition and there can be no assurance that any acquisition will be consummated in the future.

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 MIDAS technology and its
direct radiolabeling technology. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, conduct pre-clinical studies and clinical trials, obtain required regulatory approvals and successfully manufacture and market such technologies and proposed 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 II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. CHANGES IN SECURITIES.

During the three months ended September 30, 1997 the Company sold the following shares of Common Stock which were not registered under the Securities Act:

<table>
<thead>
<tr>
<th>DATE</th>
<th>NUMBER OF SHARES</th>
<th>SOLD TO</th>
<th>OFFERING PRICE</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 9, 1997</td>
<td>6,912</td>
<td>Warrant Holder</td>
<td>$1,500</td>
</tr>
<tr>
<td>September 22, 1997</td>
<td>3,456</td>
<td>Warrant Holder</td>
<td>$750</td>
</tr>
</tbody>
</table>

None of the shares of Common Stock were publicly offered or sold through underwriters, and no underwriting discounts or commissions were paid. The Company claimed exemption from registration pursuant to Section 4(2) of the Securities Act because each transaction involved the sale of restricted stock to the exercising holder of a restricted warrant, not involving any public offering.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

On August 21, 1997, and as adjourned to August 25, 1997, at a special
meeting of stockholders, the following matters were adopted: (i) the Company's 1996 Stock Option Plan, (ii) an amendment to the Company's Certificate of Incorporation increasing the authorized shares of capital stock from 27,000,000 to 85,000,000 shares, of which 75,000,000 are Common Stock and 10,000,000 are preferred stock, and (iii) amendments to the Certificate of Incorporation authorizing a reverse stock split, which reverse split was subsequently set by the Board of Directors of the Company at 1-for-4. The vote and related matters were reported in Item 4 of the Company's report on Form 10-KSB for the fiscal year ended June 30, 1997.

ITEM 5. OTHER INFORMATION.

On October 14, 1997, the Company's Common Stock began trading on The Nasdaq SmallCap Market(sm) under the symbol "PLTN."

On October 15, 1997, the Company announced it had submitted an Investigational New Drug application to the U.S. Food and Drug Administration for company sponsored clinical trials of LeuTech (tm), the Company's kit packaged radiolabeled infection imaging system.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.

(A) EXHIBITS

27 Financial Data Schedule.

(B) REPORTS ON FORM 8-K

No reports on Form 8-K were filed during the quarter for which this report is filed.

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SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Palatin Technologies, Inc.
(Registrant)

/s/ Edward J. Quilty
Date: November 14, 1997  -------------------------
Edward J. Quilty
Chairman of the Board, President and Chief Executive Officer
This schedule contains summary financial information extracted from financial statements for the three-month period ended September 30, 1997 and is qualified in its entirety by reference to such financial statements.

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### Palatin Technologies, Inc.

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---- END PRIVACY-ENHANCED MESSAGE ----