SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

April 28, 1998

Date of Report (Date of earliest event reported)

PALATIN TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware

8-K

1

REPORT ON FORM 8-K
ITEM 5. OTHER EVENTS.

As of April 28, 1998, Palatin Technologies, Inc. (the "Company") completed a private placement of 18,875 shares of Series B Convertible Preferred Stock of the Company for gross proceeds of $1,887,500 and net proceeds of approximately $1,600,000. The Series B Convertible Preferred Stock was sold to four accredited investors pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended (the "Securities Act").

The Company has agreed to file, by June 12, 1998, a registration statement under the Securities Act, registering for resale the shares of the Company's common stock, $.01 par value (the "Common Stock") issuable on conversion of the Series B Convertible Preferred Stock. See the Registration Rights Agreement filed as Exhibit 99.2 to this Form 8-K.

The net proceeds of the private placement will be used for working capital purposes, and no portion will be used to redeem any equity or equity-equivalent securities of the Company, and no more than $1,200,000 will be used for repayment of the Company's indebtedness. Paramount Capital, Inc. received a finder's fee of $188,750 in connection with the private placement.

Each share of Series B Convertible Preferred Stock is convertible at any time, at the option of the holder, into the number of shares of Common Stock equal to $100 divided by the conversion price (as "conversion price" is defined in the Certificate of Designations of the Series B Convertible Preferred Stock filed as Exhibit 3.8 to this Form 8-K). The current conversion price for the Series B Convertible Preferred Stock is $5.50. Each share of Series B Convertible Preferred Stock is currently convertible into approximately 18.2 shares of Common Stock.

The conversion price for Series B Convertible Preferred Stock is subject to adjustment upon certain events, including payment of stock dividends, distributions, and tender offer or merger announcements. The Series B Conversion
Price is also subject to adjustment on August 26, 1998, if the average closing bid price of the Common Stock for the thirty (30) consecutive trading days immediately preceding August 26, 1998 (the “Series B Reset Trading Price”) is less than $6.05 (a “Series B Reset Event”). Upon a Series B Reset Event, the Series B Conversion Price will be reduced to greater of (i) the Series B Reset Trading Price divided by 1.1 or (ii) $2.75. See the Certificate of Designations of the Series B Convertible Preferred Stock, filed as Exhibit 3.8 to this Form 8-K.

ITEM 7.  FINANCIAL STATEMENTS, PRO FORMA FINANCIAL INFORMATION AND EXHIBITS.

c) Exhibits

3.8 Certificate of Designations of Series B Convertible Preferred Stock of the Company, filed on April 27, 1998

4.7 Specimen Certificate for Series B Convertible Preferred Stock

99.1 Convertible Preferred Stock Purchase Agreement dated as of April 28, 1998, between the Company and the purchasers named therein, relating to Series B Convertible Preferred Stock

99.2 Registration Rights Agreement dated as of April 28, 1998, between the Company and the purchasers named therein, relating to Common Stock issuable on conversion of Series B Convertible Preferred Stock

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

PALATIN TECHNOLOGIES, INC.

By /s/ Stephen T. Wills

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Name: Stephen T. Wills
Title: Vice President and
Chief Financial Officer

Date: May 8, 1998
CERTIFICATE OF DESIGNATIONS

of

SERIES B CONVERTIBLE PREFERRED STOCK

of

PALATIN TECHNOLOGIES, INC.

Pursuant to Section 151 of the General Corporation Law of the State of Delaware

PALATIN TECHNOLOGIES, INC., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does hereby certify that, pursuant to the authority conferred on the Board of Directors of the Corporation by the Certificate of Incorporation, as amended to date (the "Certificate of Incorporation"), of the Corporation and in accordance with Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation adopted the following resolution establishing a series of 18,875 shares of Preferred Stock of the Corporation designated as "Series B Convertible Preferred Stock":

RESOLVED, that pursuant to the authority conferred on the Board of Directors of this Corporation by the Certificate of Incorporation, a series of Preferred Stock, par value $.01 per share, of the Corporation is hereby established and created, and that the designation and number of shares thereof and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

Series B Convertible Preferred Stock

Section 1. Designation, Amount and Par Value. The series of preferred stock shall be designated as Series B Convertible Preferred Stock (the "Preferred Stock") and the number of shares so designated shall be 18,875 (which shall not be subject to increase without the consent of the holders of the Preferred Stock (each, a "Holder")). Each share of Preferred Stock shall have a par value of $.01 per share and a stated value of $100 per share (the "Stated Value").
Section 2. Dividends and Certain Distributions.

(a) Holders of Preferred Stock shall not be entitled to receive periodic dividends on the Preferred Stock.

(b) So long as any Preferred Stock shall remain outstanding, neither the Company nor any subsidiary thereof shall redeem, purchase or otherwise acquire directly or indirectly any Junior Securities (as defined in Section 7), nor shall the Company directly or indirectly pay or declare any dividend or make any distribution (other than a dividend or distribution described in Section 5) upon, nor shall any distribution be made in respect of, any Junior Securities, nor shall any monies be set aside for or applied to the purchase or redemption (through a sinking fund or otherwise) of any Junior Securities or shares pari passu with the Preferred Stock, except for repurchases effected by the Company on the open market, pursuant to a direct stock purchase plan.

Section 3. Voting Rights. Except as otherwise provided herein and as otherwise required by law, the Preferred Stock shall have no voting rights. However, so long as any shares of Preferred Stock are outstanding, the Company shall not and shall cause its subsidiaries not to, without the affirmative vote of the Holders of 66 2/3% of the shares of the Preferred Stock then outstanding, (a) alter or change adversely the powers, preferences or rights given to the Preferred Stock, (b) alter or amend this Certificate of Designation, (c) authorize or create any class of stock ranking as to distribution of assets upon a Liquidation (as defined in Section 4) or as to dividends, voting rights or otherwise senior to the Preferred Stock, (d) amend its Certificate of Incorporation, bylaws or other charter documents so as to affect adversely any rights of any Holders, (e) increase the authorized number of shares of Preferred Stock, or (f) enter into any agreement with respect to the foregoing.

Section 4. Liquidation. Upon any liquidation, dissolution or winding-up of the Company, whether voluntary or involuntary (a "Liquidation"), the Holders shall be entitled to receive out of the assets of the Company, whether such assets are capital or surplus, for each share of Preferred Stock an amount equal to the Stated Value before any distribution or payment shall be made to the holders of any Junior Securities, and if the assets of the Company shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holders of Preferred Stock shall be distributed among the Holders of Preferred Stock ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full. A sale, conveyance or disposition of all or substantially all of the assets of the Company or the effectuation by the Company of a transaction or series of related transactions in which more than 50% of the voting power of the Company is disposed of, or a consolidation or merger of the Company with or into any other company or companies shall not be treated as a Liquidation, but instead shall be subject to the provisions of Section 5. The Company shall mail written notice of any such Liquidation, not less than 45 days prior to the payment date stated therein, to each record Holder of Preferred Stock.
Section 5. Conversion.

(a)(i) Each share of Preferred Stock shall be convertible into shares of Common Stock (subject to reduction pursuant to Section 5(a)(ii) hereof and Section 4.8 of the Purchase Agreement) at the Conversion Ratio (as defined in Section 7) at the option of the Holder in whole or in part at any time after the Original Issue Date (as defined in Section 7). The Holders shall effect conversions by surrendering the certificate or certificates representing the shares of Preferred Stock to be converted to the Company, together with the form of conversion notice attached hereto as Exhibit A (a "Conversion Notice"). Each Conversion Notice shall specify the number of shares of Preferred Stock to be converted and the date on which such conversion is to be effected, which date may not be prior to the date the Holder delivers such Conversion Notice by facsimile (the "Conversion Date"). If no Conversion Date is specified in a Conversion Notice, the Conversion Date shall be the date that the Conversion Notice is deemed delivered pursuant to Section 5(h). Subject to Sections 5(b) and 5(a)(ii) hereof, each Conversion Notice, once given, shall be irrevocable. If the Holder is converting less than all shares of Preferred Stock represented by the certificate or certificates tendered by the Holder with the Conversion Notice, or if a conversion hereunder cannot be effected in full for any reason, the Company shall promptly deliver to such Holder (in the manner and within the time set forth in Section 5(b)) a certificate for such number of shares as have not been converted.

(ii) If on any Conversion Date (A) the Common Stock is listed for trading on the Nasdaq National Market or the Nasdaq SmallCap Market, (B) the Conversion Price then in effect is such that the aggregate number of shares of Common Stock that would then be issuable upon conversion in full of all then outstanding shares of Preferred Stock, together with any shares of the Common Stock previously issued upon conversion of the shares of Preferred Stock, would equal or exceed 20% of the number of shares of the Common Stock outstanding on the Original Issue Date (such number of shares as would not equal or exceed such 20% limit, the "Issuable Maximum"), and (C) the Company shall not have previously obtained the vote of stockholders (the "Shareholder Approval"), if any, as may be required by the rules and regulations of The Nasdaq Stock Market (or any successor association) applicable to approve the issuance of Common Stock in excess of the Issuable Maximum in a private placement whereby shares of Common Stock are deemed to have been issued at a price that is less than the greater of book or fair market value of the Common Stock, then the Company shall issue to the Holder so requesting a conversion a number of shares of Common Stock equal to the Issuable Maximum and, with respect to the remainder of the aggregate Stated Value of the shares of Preferred Stock then held by such Holder for which a conversion in accordance with the Conversion Price would result in an issuance of Common Stock in excess of the Issuable Maximum, the Company shall use its best efforts to obtain the Shareholder Approval applicable to such issuance as soon as is possible, but in any event not later than the 60th day after such request.
(b) (i) Not later than three (3) Trading Days after any Conversion Date, the Company will deliver to the Holder (i) a certificate or certificates which shall be free of restrictive legends and trading restrictions (other than those required by Section 4.1(b) of the Purchase Agreement) representing the number of shares of Common Stock being acquired upon the conversion of shares of Preferred Stock (subject to reduction pursuant to Section 5(a)(ii) hereof and Section 4.8 of the Purchase Agreement) and (ii) one or more certificates representing the number of shares of Preferred Stock tendered for conversion that were not requested to be converted (or that the Company is prohibited from converting); provided, however, that the Company shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon conversion of any shares of Preferred Stock until certificates evidencing such shares of Preferred Stock are either delivered for conversion to the Company or any transfer agent for the Preferred Stock or Common Stock, or the Holder of such Preferred Stock notifies the Company that such certificates have been lost, stolen or destroyed and provides a bond (or other adequate security) reasonably satisfactory to the Company to indemnify the Company from any loss incurred by it in connection therewith. The Company shall, upon request of the Holder, if available, use its best efforts to deliver any certificate or certificates required to be delivered by the Company under this Section electronically through the Depository Trust Corporation or another established clearing corporation performing similar functions. If in the case of any Conversion Notice such certificate or certificates are not delivered to or as directed by the applicable Holder by the third Trading Day after the Conversion Date, the Holder shall be entitled by written notice to the Company at any time on or before its receipt of such certificate or certificates thereafter, to rescind such conversion, in which event the Company shall immediately return the certificates representing the shares of Preferred Stock tendered for conversion, (such rescission shall be in addition to, and not in lieu of, the rights set forth elsewhere herein).

(c) (i) The conversion price for each share of Preferred Stock (the “Conversion Price”) in effect on any Conversion Date shall be $5.50; provided, that, if the Reset Price (as defined in Section 7) is less than $6.05, then the Conversion Price shall be reduced to the greater of (A) the Reset Price divided by 1.1 and (B) $2.75 ($5.50 as so reset, the "Initial Conversion Price"); provided, however, that, (a) if the Underlying Securities Registration Statement is not filed on or prior to the Filing Date (as defined in the Registration Rights Agreement) (for purposes hereof, in the event the Company files such Underlying Securities Registration Statement without complying with the provisions of Section 3(a) of the Registration Rights Agreement, such filing shall not be deemed to have occurred), or (b) if the Company fails to file with the Commission a request for acceleration in accordance with Rule 12d1-2 promulgated under the Exchange Act within five (5) days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that an Underlying Securities Registration Statement will not be “reviewed” or not subject to further review, or (c) if the Underlying Securities Registration Statement is not declared effective by the Commission on or prior to the 120th day after the Original Issue Date, or (d) if such Underlying Securities Registration Statement is filed with and declared effective by the
Commission but thereafter ceases to be effective as to all Registrable Securities (as such term is defined in the Registration Rights Agreement) at any time prior to the expiration of the "Effectiveness Period" (as such term is defined in the Registration Rights Agreement), without being succeeded within 10 Trading Days by a subsequent Underlying Securities Registration Statement filed with and declared effective by the Commission, or (e) if the conversion rights of the Holders are suspended for any reason, or if a Holder is not permitted to resell Registrable Securities under an Underlying Securities Registration Statement, or (f) if the Company is required to convene a stockholders meeting pursuant to Section 5(a)(ii) and fails to convene such meeting within the time period specified in such Section or does so convene such a meeting within such time period but fails to obtain Shareholder Approval at such meeting, or (g) if an amendment to the Underlying Securities Registration Statement is not filed by the Company with the Commission within ten (10) days of the Commission's notifying the Company that such amendment is required in order for the Underlying Securities Registration Statement to be declared effective, or (h) if the Company fails to comply with requests for conversion of any Preferred Stock into shares of Common Stock in accordance with the terms hereof (any such failure or breach being referred to as an "Event" and for purposes of clauses (a), (c), (e), (f) and (h) the date on which such Event occurs, or for purposes of clause (b) the date on which such five (5) day period is exceeded, or for purposes of clauses (d) and (g) the date which such 10 Trading Day-period is exceeded, being referred to as "Event Date"), then each Holder shall have the right, exercisable by notice to the Company (an "Initial Reduced Conversion Notice"), to decrease the Conversion Price by 1.5% as of the Event Date, and by an additional 2.5% (on a cumulative basis) as of each monthly anniversary of such Event Date until the Event at issue has been cured. The Holder can discontinue and recontinue such election as to subsequent periods by notice to the Company to such effect. Any decrease in the Conversion Price pursuant to this Section shall continue notwithstanding the fact that the Event causing such decrease has been subsequently cured. If the Common Stock shall fail to be listed on, or be suspended from trading from, the Nasdaq National Market or Nasdaq SmallCap Market for three (3) Trading Days (which need not be consecutive Trading Days), then each Holder shall have the right, exercisable by notice to the Company (the "Subsequent Reduced Conversion Price Notice"), to discount the Conversion Price by 25% (which discount shall be cumulative with any other discounts herein provided). For purposes hereof, shares of Preferred Stock for which a conversion has been requested in accordance with the terms hereof shall be deemed to be outstanding and held by the converting holder if such Event, delisting or suspension (as the case may be) occurs on or prior to the date that the Holder receives the Underlying Shares from the Company in respect thereof.

(ii) If the Company, at any time while any shares of Preferred Stock are outstanding, shall (a) pay a stock dividend or otherwise make a distribution or distributions on shares of its Junior Securities or pari passu securities payable in shares of Common Stock, (b) subdivide outstanding shares of Common Stock into a larger number of shares, (c) combine outstanding shares of Common Stock into a smaller number of shares, or (d) issue by reclassification of
shares of Common Stock, any shares of capital stock of the Company, the Initial Conversion Price shall be multiplied by a fraction of which the numerator shall be the number of shares of Common Stock outstanding before such event and of which the denominator shall be the number of shares of Common Stock outstanding after such event. Any adjustment made pursuant to this Section 5(c)(ii) shall become effective immediately after the record date for the determination of stockholders entitled to receive such dividend or distribution and shall become effective immediately after the effective date in the case of a subdivision, combination or re-classification.

(iii) If the Company, at any time while any shares of Preferred Stock are outstanding, shall issue rights or warrants to all holders of Common Stock entitling them to subscribe for or purchase shares of Common Stock at a price per share less than the Per Share Market Value of the Common Stock at the record date mentioned below, the Initial Conversion Price shall be multiplied by a fraction, of which the denominator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding on the date of issuance of such rights or warrants plus the number of additional shares of Common Stock offered for subscription or purchase, and of which the numerator shall be the number of shares of Common Stock (excluding treasury shares, if any) outstanding on the date of issuance of such rights or warrants plus the number of shares which the aggregate offering price of the total number of shares so offered would purchase at such Per Share Market Value. Such adjustment shall be made whenever such rights or warrants are issued, and shall become effective immediately after the record date for the determination of stockholders entitled to receive such rights or warrants. However, upon the expiration of any right or warrant to purchase Common Stock the issuance of which resulted in an adjustment in the Initial Conversion Price pursuant to this Section 5(c)(iii), if any such right or warrant shall expire and shall not have been exercised, the Initial Conversion Price shall immediately upon such expiration be recomputed and effective immediately upon such expiration be increased to the price which it would have been (but reflecting any other adjustments in the Initial Conversion Price made pursuant to the provisions of this Section 5 after the issuance of such rights or warrants) had the adjustment of the Initial Conversion Price made upon the issuance of such rights or warrants been made on the basis of offering for subscription or purchase only that number of shares of Common Stock actually purchased upon the exercise of such rights or warrants actually exercised.

(iv) If the Company, at any time while shares of Preferred Stock are outstanding, shall distribute to all holders of Common Stock (and not to Holders of Preferred Stock) evidences of its indebtedness or assets or rights or warrants to subscribe for or purchase any security (excluding those referred to in Sections 5(c)(ii) and (iii) above), then in each such case the Conversion Price at which each share of Preferred Stock shall thereafter be convertible shall be determined by multiplying the Conversion Price in effect immediately prior to the record date fixed for determination of stockholders entitled to receive such distribution by a fraction of which the denominator shall be the Per Share Market Value of Common Stock determined as of the record date.
mentioned above, and of which the numerator shall be such Per Share Market Value of the Common Stock on such record date less the then fair market value at such record date of the portion of such assets or evidence of indebtedness so distributed applicable to one outstanding share of Common Stock as determined by the Board of Directors in good faith; provided, however, that in the event of a distribution exceeding ten percent (10%) of the net assets of the Company, if the Holders of a majority in interest of the Preferred Stock dispute such valuation, such fair market value shall be determined by a nationally recognized or major regional investment banking firm or firm of independent certified public accountants of recognized standing (which may be the firm that regularly examines the financial statements of the Company) (an "Appraiser") selected in good faith by the Holders of a majority in interest of the shares of Preferred Stock then outstanding; and provided, further, that the Company, after receipt of the determination by such Appraiser shall have the right to select an additional Appraiser, in good faith, in which case the fair market value shall be equal to the average of the determinations by each such Appraiser. In either case the adjustments shall be described in a statement provided to the Holders of Preferred Stock of the portion of assets or evidences of indebtedness so distributed or such subscription rights applicable to one share of Common Stock. Such adjustment shall be made whenever any such distribution is made and shall become effective immediately after the record date mentioned above.

(v) All calculations under this Section 5 shall be made to the nearest cent or the nearest 1/100th of a share, as the case may be.

(vi) Whenever the Conversion Price is adjusted pursuant to Section 5(c)(i),(ii),(iii) or (iv), the Company shall promptly mail to each Holder of Preferred Stock, a notice setting forth the Conversion Price after such adjustment and setting forth a brief statement of the facts requiring such adjustment.

(vii) A. In case of any reclassification of the Common Stock or any compulsory share exchange pursuant to which the Common Stock is converted into cash or property, the Holders of the Preferred Stock then outstanding shall have the right thereafter to convert such shares only into the shares of stock and other securities, cash and property receivable upon or deemed to be held by holders of Common Stock following such reclassification or share exchange, and the Holders of the Preferred Stock shall be entitled upon such event to receive such amount of securities, cash or property as the shares of the Common Stock of the Company into which such shares of Preferred Stock could have been converted immediately prior to such reclassification or share exchange would have been entitled.

B. In the case of any consolidation or merger of the Company with or into another Person pursuant to which the Company will not be the surviving entity, any sale of all or substantially all of the assets of the Company, or any sale or transfer or compulsory share exchange pursuant to which the Common Stock is converted into securities of an entity other than the Company, each Holder of Preferred Stock then outstanding shall have the option to either (1)
convert their shares of Preferred Stock into shares of Common Stock pursuant to the terms hereof prior to the effective date of such transaction, or (2) subject to the liquidation rights of the Company's Series A Convertible Preferred Stock, be issued shares of convertible preferred stock or convertible debentures of the Person with which such consolidation, merger, sale, transfer or share exchange takes place, which newly issued shares or debentures (as the case may be) shall have terms substantially similar in all material respects to the terms of the Preferred Stock (including with respect to conversion) and shall be entitled to all of the rights and privileges of a Holder set forth in this Certificate of Designation, the Registration Rights Agreement and the Purchase Agreement (including, without limitation, as such rights relate to the acquisition, transferability, registration and listing of the freely tradeable securities issuable upon a conversion or exchange thereof). Simultaneously with such issuance of such convertible preferred stock or convertible debentures, the Holders of Preferred Stock shall have the right to convert such shares of preferred stock only into shares of stock and other securities, cash and property receivable upon or deemed to be held by holders of Common Stock following such consolidation, merger, sale, transfer or exchange. In the case of clause (2) of the immediately preceding sentence, the conversion price for such newly issued shares or debentures (as the case may be) shall be based upon the amount of securities, cash or property that each share of Common Stock would receive in such transaction and the Conversion Price stated herein. The terms of any such reclassification, consolidation, merger, sale or exchange under this Section shall include such terms so as to continue to give the Holders the right to receive the securities, cash or property set forth in this Section upon any conversion or redemption following such reclassification, consolidation, merger, sale, transfer or exchange. This provision shall similarly apply to successive reclassifications, consolidations, mergers, sales, transfers or share exchanges.

(viii) If:

A. the Company shall declare a dividend (or any other distribution) on its Common Stock; or

B. the Company shall declare a special nonrecurring cash dividend on or a redemption of its Common Stock; or

C. the Company shall authorize the granting to all holders of the Common Stock rights or warrants to subscribe for or purchase any shares of capital stock of any class or of any rights; or

D. the approval of any stockholders of the Company shall be required in connection with any reclassification of the Common Stock of the Company, any consolidation or merger to which the Company is a party, any sale or transfer of all or substantially all of the assets of the Company, of any compulsory share of exchange whereby the Common Stock is converted into other securities, cash or
property; or

E. the Company shall authorize the voluntary or involuntary dissolution, liquidation or winding up of the affairs of the Company;

then the Company shall cause to be filed at each office or agency maintained for the purpose of conversion of Preferred Stock, and shall cause to be mailed to the Holders of Preferred Stock at their last addresses as they shall appear upon the stock books of the Company, at least 20 calendar days prior to the applicable record or effective date hereinafter specified, a notice stating (x) the date on which a record is to be taken for the purpose of such dividend, distribution, redemption, rights or warrants, or if a record is not to be taken, the date as of which the holders of Common Stock of record to be entitled to such dividend, distributions, redemption, rights or warrants are to be determined or (y) the date on which such reclassification, consolidation, merger, sale, transfer or share exchange is expected to become effective or close, and the date as of which it is expected that holders of Common Stock of record shall be entitled to exchange their shares of Common Stock for securities, cash or other property deliverable upon such reclassification, consolidation, merger, sale, transfer or share exchange; provided, however, that the failure to mail such notice or any defect therein or in the mailing thereof shall not affect the validity of the corporate action required to be specified in such notice. Holders are entitled to convert shares of Preferred Stock during the 20-day period commencing the date of such notice to the effective date of the event triggering such notice.

(ix) If the Company (i) makes a public announcement that it intends to enter into a Change of Control Transaction or (ii) any person, group or entity (including the Company, but excluding a Holder or any affiliate of a Holder) publicly announces a bona fide tender offer, exchange offer or other transaction to purchase 50% or more of the Common Stock (such announcement being referred to herein as a "Major Announcement" and the date on which a Major Announcement is made, the "Announcement Date"), then, in the event that a Holder seeks

-8-
to convert shares of Preferred Stock on or following the Announcement Date, the Conversion Price shall, effective upon the Announcement Date and continuing through the earlier to occur of the consummation of the proposed transaction or tender offer, exchange offer or other transaction and the Abandonment Date (as defined below), be equal to the lower of (x) the average Per Share Market Value on the five Trading Days immediately preceding (but not including) the Announcement Date and (y) the Conversion Price in effect on the Conversion Date for such Preferred Stock. "Abandonment Date" means with respect to any proposed transaction or tender offer, exchange offer or other transaction for which a public announcement as contemplated by this paragraph has been made, the date upon which the Company (in the case of clause (i) above) or the person, group or entity (in the case of clause (ii) above) publicly announces the termination or abandonment of the proposed transaction or tender offer, exchange offer or another transaction which caused this paragraph to become operative.
(d) The Company covenants that it will at all times reserve and keep available out of its authorized and unissued Common Stock solely for the purpose of issuance upon conversion of Preferred Stock free from preemptive rights or any other actual contingent purchase rights of persons other than the Holders of Preferred Stock, not less than such number of shares of Common Stock as shall (subject to any additional requirements of the Company as to reservation of such shares set forth in the Purchase Agreement) be issuable (taking into account the adjustments and restrictions of Section 5(a) and Section 5(c)) upon the conversion of all outstanding shares of Preferred Stock. The Company covenants that all shares of Common Stock that shall be so issuable shall, upon issue, be duly and validly authorized, issued and fully paid, nonassessable and freely tradeable, subject to the legend requirements of Section 4.1(b) of the Purchase Agreement.

(e) Upon a conversion hereunder the Company shall not be required to issue stock certificates representing fractions of shares of Common Stock, but must make a cash payment in respect of any final fraction of a share based on the Per Share Market Value at such time.

(f) The issuance of certificates for shares of Common Stock on conversion of Preferred Stock shall be made without charge to the Holders thereof for any documentary stamp or similar taxes that may be payable in respect of the issue or delivery of such certificate, provided that the Company shall not be required to pay any tax that may be payable in respect of any transfer involved in the issuance and delivery of any such certificate upon conversion in a name other than that of the Holder of such shares of Preferred Stock so converted and the Company shall not be required to issue or deliver such certificates unless or until the person or persons requesting the issuance thereof shall have paid to the Company the amount of such tax or shall have established to the satisfaction of the Company that such tax has been paid.

(g) Shares of Preferred Stock converted into Common Stock shall be canceled and shall have the status of authorized but unissued shares of undesignated stock.

(h) Any and all notices or other communications or deliveries to be provided by the Holders of the Preferred Stock hereunder, including, without limitation, any Conversion Notice, shall be in writing and delivered personally, by facsimile or sent by a nationally recognized overnight courier service, addressed to the attention of the Chief Executive Officer of the Company at the facsimile telephone number or address of the principal place of business of the Company as set forth in the Purchase Agreement. Any and all notices or other communications or deliveries to be provided by the Company hereunder shall be in writing and delivered personally, by facsimile or sent by a nationally recognized overnight courier service, addressed to each Holder of Preferred Stock at the facsimile telephone number or address of such Holder appearing on the books of the Company, or if no such facsimile telephone number or address appears, at the principal place of business of the Holder. Any notice or other communication or deliveries
hereunder shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 8:00 p.m. (Eastern Standard Time), (ii) the date after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section later than 8:00 p.m. (Eastern Standard Time) on any date and earlier than 11:59 p.m. (Eastern Standard Time) on such date, (iii) upon receipt, if sent by a nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given.

Section 6. Redemption at Option of Company.

(a) The Company shall have the right, exercisable at any time upon 20 Trading Days notice (an "Optional Redemption Notice") to the Holders of the Preferred Stock given at any time after the Original Issue Date to redeem all or any portion of the shares of Preferred Stock which have not previously been converted or redeemed, at a price equal to the Optional Redemption Price (as defined below). The entire Optional Redemption Price shall be paid in cash. Holders of Preferred Stock may convert (and the Company shall honor such conversions in accordance with the terms hereof) any shares of Preferred Stock, including shares subject to an Optional Redemption Notice, during the period from the date thereof through the 20th Trading Day after the receipt of an Optional Redemption Notice.

(b) If any portion of the Optional Redemption Price shall not be paid by the Company within seven (7) calendar days after the 20th Trading Day after the delivery of an Optional Redemption Notice, interest shall accrue thereon at the rate of 15% per annum until the Optional Redemption Price plus all such interest is paid in full (any such amount shall be paid as liquidated damages and not as a penalty). In addition, if any portion of the Optional Redemption Price remains unpaid for more than seven (7) calendar days after the date due, the Holder of the Preferred Stock subject to such redemption may elect, by written notice to the Company given at any time thereafter, to either (i) demand conversion in accordance with the formula and the time frame therefor set forth herein of all or any portion of the shares of Preferred Stock for which such Optional Redemption Price, plus accrued liquidated damages thereof, has not been paid in full (the "Unpaid Redemption Shares"), in which event the Per Share Market Value for such shares shall be the lower of the Per Share Market Value calculated on the date the Optional Redemption Price was originally due and the Per Share Market Value as of the Holder's written demand for conversion, or (ii) invalidate ab initio such redemption, notwithstanding anything herein contained to the contrary. If the Holder elects option (i) above, the Company shall within three (3) Trading Days of its receipt of such election deliver to the Holder the shares of Common Stock issuable upon conversion of the Unpaid Redemption Shares subject to such Holder conversion demand and otherwise perform its obligations hereunder with respect thereto; or, if the Holder elects option (ii) above, the Company shall promptly, and in any event not later than three (3) Trading Days from receipt of Holder's notice of such
election, return to the Holder all of the Unpaid Redemption Shares.

(c) The "Optional Redemption Price" shall equal the sum of (i) the product of (A) the number of shares of Preferred Stock to be redeemed and (B) the product of (1) the average Per Share Market Value for the five (5) Trading Days immediately preceding (x) the date of the Optional Redemption Notice or (y) the date of payment in full by the Company of the Optional Redemption Price, whichever is greater, and (2) the Conversion Ratio calculated on the date of the Optional Redemption Notice, and (ii) all other amounts, costs, expenses and liquidated damages due in respect of such shares of Preferred Stock.

Section 7. Definitions. For the purposes hereof, the following terms shall have the following meanings:

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Company's common stock, $.01 par value, and stock of any other class into which such shares may hereafter have been reclassified or changed.

"Conversion Ratio" means, at any time, a fraction, of which the numerator is Stated Value and of which the denominator is the Conversion Price at such time.


"Junior Securities" means the Common Stock and all other equity securities of the Company, other than the Company's Series A Convertible Preferred Stock and Series C Convertible Preferred Stock (provided it is issued in a financing contemplated in Section 6(b) to the Registration Rights Agreement) or any other security that the Holders consent to be pari passu with the Preferred Stock.

"Original Issue Date" shall mean the date of the first issuance of any shares of the Preferred Stock regardless of the number of transfers of any particular shares of Preferred Stock and regardless of the number of certificates which may be issued to evidence such Preferred Stock.

"Per Share Market Value" means on any particular date (a) the closing bid price per share of the Common Stock on such date on the Nasdaq National Market or Nasdaq SmallCap Market or any other stock exchange or quotation system on which the Common Stock is then listed or if there is no such price on such date, then the closing bid price on such exchange or quotation system on the date nearest preceding such date, or (b) if the Common Stock is not listed then on the Nasdaq National Market or Nasdaq SmallCap Market or any stock exchange or quotation system, the closing bid price for a share of Common Stock in the over-the-counter market, as reported by the National Quotation Bureau Incorporated or similar organization or agency succeeding to its functions of reporting prices at the close of business on such date, or (c) if the Common Stock is not then reported by the National Quotation Bureau Incorporated (or similar
organization or agency succeeding to its functions of reporting prices), then
the average of the "Pink Sheet" quotes for the relevant conversion period, as
determined in good faith by the Holder, or (d) if the Common Stock is not then
publicly traded the fair market value of a share of Common Stock as determined
by an Appraiser selected in good faith by the Holders of a majority in interest
of the shares of the Preferred Stock; provided, however, that the Company, after
receipt of the determination by such Appraiser, shall have the right to select
an additional Appraiser, in which case, the fair market value shall be equal to
the average of the determinations by each such Appraiser; and provided, further
that all determinations of the Per Share Market Value shall be appropriately
adjusted for any stock dividends, stock splits or other similar transactions
during such period.

"Person" means a corporation, an association, a partnership,
organization, a business, an individual, a government or political subdivision
thereof or a governmental agency.

"Purchase Agreement" means the Convertible Preferred Stock Purchase
Agreement, dated as of the Original Issue Date, among the Company and the
original Holder of the Preferred Stock.

"Registration Rights Agreement" means the Registration Rights Agreement,
dated as of the Original Issue Date, by and among the Company and the original
Holder of the Preferred Stock.

"Reset Price" means the average of Per Share Market Value for the 30
consecutive Trading Days immediately preceding the 120th day after the Original
Issue Date.

"Securities Act" means the Securities Act of 1933, as amended.

"Trading Day" means (a) a day on which the Common Stock is traded on the
Nasdaq National Market or Nasdaq SmallCap Market or other stock exchange or
market on which the Common Stock has been listed, or (b) if the Common Stock is
not listed on the Nasdaq SmallCap Market or any stock exchange or market, a day
on which the Common Stock is traded in the over-the-counter market, as reported
by the OTC Bulletin Board, or (c) if the Common Stock is not quoted on the OTC
Bulletin Board, a day on which the Common Stock is quoted in the
over-the-counter market as reported by the National Quotation Bureau Incor-
porated (or any similar organization or agency succeeding its functions of
reporting prices); provided, however, that in the event that the Common Stock is
not listed or quoted as set forth in (a), (b) and (c) hereof, then Trading Day
shall mean any day except Saturday, Sunday and any day which shall be a legal
holiday or a day on which banking institutions in the State of New York are
authorized or required by law or other government action to close.

"Underlying Securities Registration Statement" means a registration
statement under the Securities Act prepared by the Company and filed with the
Commission in accordance with the Registration Rights Agreement, covering the
resale of the Underlying Shares and naming the Holders as "selling stockholders"
thereunder.
"Underlying Shares" means shares of Common Stock into which the Preferred Stock are convertible in accordance with the terms hereof.

IN WITNESS WHEREOF, the Company has caused this certificate to be signed on its behalf by Edward J. Quilty, its Chairman and Chief Executive Officer, this 27th day of April, 1998.

The Company:

PALATIN TECHNOLOGIES, INC.

By: /s/Edward J. Quilty

------------------------
Name: Edward J. Quilty
Title: Chairman and Chief Executive Officer

ATTEST

/s/ Stephen Wills
EXHIBIT A

NOTICE OF CONVERSION

(To be Executed by the Registered Holder in order to Convert shares of Preferred Stock)

The undersigned hereby elects to convert the number of shares of Series B Convertible Preferred Stock indicated below, into shares of Common Stock, $.01 par value (the “Common Stock”), of Palatin Technologies, Inc. (the “Company”) according to the conditions hereof, as of the date written below. If shares are to be issued in the name of a person other than undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Company in accordance therewith. No fee will be charged to the Holder for any conversion, except for such transfer taxes, if any.

Conversion calculations:

_________________________________________
Date to Effect Conversion

_________________________________________
Number of shares of Preferred Stock to be Converted

_________________________________________
Number of shares of Common Stock to be Issued

_________________________________________
Applicable Conversion Price

_________________________________________
Signature

_________________________________________
Name

_________________________________________
Address
SPECIMEN SERIES B PREFERRED STOCK CERTIFICATE

PALATIN TECHNOLOGIES, INC.

Incorporated Under the Laws of the State of Delaware

Certificate Number B0000 Number of Shares 0,000

TRANSFER IS RESTRICTED SEE LEGENDS ON REVERSE

SERIES B CONVERTIBLE PREFERRED STOCK $0.01 PAR VALUE

This Certifies That NAME OF HOLDER is the record owner of NUMBER fully paid and non-assessable shares of Series B Convertible Preferred Stock of Palatin Technologies, Inc. transferable on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

Witness the seal of the Corporation and the signatures of its duly authorized officers.


___________________  ____________________
Chairman  Secretary

NEITHER THESE SECURITIES NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE
REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON CONVERSION SET FORTH IN SECTION 4.8 OF THE CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT, DATED AS OF APRIL 28, 1998, BETWEEN PALATIN TECHNOLOGIES, INC. (THE "COMPANY") AND THE ORIGINAL HOLDER HEREOF. A COPY OF THAT AGREEMENT IS ON FILE AT THE PRINCIPAL OFFICE OF THE COMPANY.

The Company will furnish without charge to each stockholder who so requests the powers, designations, preferences, and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

For Value Received, (I/we) sell, assign and transfer to ______________________ shares of the Series B Convertible Preferred Stock represented by this Certificate, and appoint ________________________________ to transfer the said Stock on the books of Palatin Technologies, Inc. with full power of substitution in the premises.

Social Security Number or Employer Identification Number of transferee, if known:____________________________________

Signed _____________________________ Dated _________________,_____ Signed _____________________________ Dated _________________,_____
CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT

PALATIN TECHNOLOGIES, INC.

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April 28, 1998

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CONVERTIBLE PREFERRED STOCK PURCHASE AGREEMENT, dated as of April 28, 1998 (this "Agreement"), between Palatin Technologies, Inc., a Delaware corporation (the "Company"), and the parties who have executed this Agreement and whose names appear on Schedule 1 hereto (each party listed on Schedule 1 hereto being hereinafter sometimes referred to as a "Purchaser" and collectively as the "Purchasers").

WHEREAS, certain of the Purchasers and the Company have executed one or more Subscription Agreements in connection with the offering by the Company of certain Units relating to the Company's Series B Convertible Stock (the "Unit Offering");

WHEREAS, the parties to the Unit Offering desire to void ab initio all agreements and understandings relating thereto;
WHEREAS, subject to the terms and conditions set forth herein, the Company desires to issue and sell to the Purchasers and the Purchasers, severally and not jointly, desire to acquire shares of the Company's Series B Convertible Preferred Stock, $.01 par value per share (the "Preferred Stock").

IN CONSIDERATION of the mutual covenants and agreements set forth herein and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, the parties agree as follows:

ARTICLE I

CERTAIN DEFINITIONS

Section 1.1. Certain Definitions. As used in this Agreement, unless the context requires a different meaning, the following terms have the meanings indicated in this Section 1.1:

"Affiliate" means, with respect to any Person, any Person that, directly or indirectly, controls, is controlled by, or is under common control with, such Person. For purposes of this definition, "control" (including, with correlative meanings, the terms "controlled by" and "under common control with") shall mean the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities or by contract or otherwise.

"Agreement" shall have the meaning set forth in the recitals hereto.

"Business Day" means any day except Saturday, Sunday and any day which shall be a Federal legal holiday or a day on which banking institutions in the State of New York are authorized or required by law or other government actions to close.

"Certificate of Designation" shall have the meaning set forth in Section 2.1(a).

"Closing" shall have the meaning set forth in Section 2.1(b).

"Closing Date" shall have the meaning set forth in Section 2.1(b).

"Code" means the Internal Revenue Code of 1986, as amended, and the rules and regulations thereunder as in effect on the date hereof.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Company's common stock, par value $.01
"Company" shall have the meaning set forth in the recitals hereto.

"Conversion Price" shall have the meaning set forth in the Certificate of Designation.

"Disclosure Materials" means, collectively, the SEC Documents, the schedules to this Agreement and the Registration Rights Agreement and all other information furnished in writing by or on behalf of the Company to the Purchasers or their respective agents and counsel in connection with the transactions contemplated by this Agreement.

"Escrow Agent" means Robinson Silverman Pearce Aronsohn & Berman LLP.

"Escrow Agreement" means the escrow agreement, dated as of the date hereof, among the Company, JNC and the Escrow Agent, in the form of Exhibit D, as the same may be amended, supplemented or otherwise modified in accordance with its terms.

"Event" shall have the meaning set forth in Section 4.14.

"Event Date" shall have the meaning set forth in Section 4.14.


"JNC" means JNC Opportunity Fund Ltd., a Cayman Islands corporation, and a Purchaser hereunder.

"Initial Reserve" shall have the meaning set forth in Section 3.1(d).

"Intellectual Property Rights" shall have the meaning set forth in Section 3.1(q).

"Legal Opinion" means the legal opinion letter of Rubin Baum Levin Constant & Friedman, outside counsel to the Company, addressed to the Purchasers, dated the Closing Date, substantially in the form attached hereto as Exhibit C.

"Lien" means, with respect to any asset, any mortgage, lien, pledge, right of first refusal, charge, security interest or encumbrance of any kind in or on such asset or the revenues or income thereon or therefrom.
"Material Adverse Effect" shall have the meaning set forth in Section 3.1(a).

"New York Courts" shall have the meaning set forth in Section 5.8.

"Original Issue Date" shall mean the first issuance of any Shares, regardless of the number of transfers of any particular Share and regardless of the number of certificates which may be issued to evidence any particular Share.

"Person" means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

"Preferred Stock" shall have the meaning set forth in the recitals hereto.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition).

"Purchaser(s)" shall have the meaning set forth in the recitals hereto.

"Registration Rights Agreement" means the registration rights agreement, dated as of the date hereof, among the Company and the Purchasers, in the form of Exhibit B, as the same may be amended, supplemented or otherwise modified in accordance with its terms.

"Required Approvals" shall have the meaning set forth in Section 3.1(f).

"SEC Documents" shall have the meaning set forth in Section 3.1(k).

"Securities" means, collectively, the Shares and the Underlying Shares.

"Securities Act" means the Securities Act of 1933, as amended.

"Shares" means the shares of Preferred Stock to be purchased pursuant to this Agreement.

"Stated Value" means $100.

"Subsequent Financing" shall have the meaning set forth in
Section 4.9.

“Subsequent Financing Notice” shall have the meaning set forth in Section 4.9.

“Subsidiaries” shall have the meaning set forth in Section 3.1(a).

“Trading Day” shall have the meaning set forth in the Certificate of Designation.

“Transaction Documents” means collectively, this Agreement, the Registration Rights Agreement, the Certificate of Designation and the Escrow Agreement.

"Underlying Shares" means the shares of Common Stock issuable upon conversion of the Shares in accordance with the terms of the Certificate of Designation.

"Underlying Securities Registration Statement" means a registration statement under the Securities Act prepared by the Company and filed with the Commission in accordance with the Registration Rights Agreement, covering the resale of the Underlying Shares and naming the holder or holders of such Underlying Shares as “selling stockholders” thereunder.

"Unit Offering" shall have the meaning set forth in the recitals hereto.

ARTICLE II
PURCHASE OF SHARES

Section 2.1. Purchase of Shares; Closing.

(a) Subject to the terms and conditions set forth in this Agreement, the Company shall issue and sell to the Purchasers and the Purchasers shall, severally and not jointly, purchase up to an aggregate of 18,875 Shares for an aggregate purchase price of $1,887,500. The Shares shall have the respective rights, preferences and privileges set forth in Exhibit A (the "Certificate of Designation").

(b) The closing of the purchase and sale of the Shares (the "Closing") shall take place on such date as the parties shall agree at the offices of the Escrow Agent, 1290 Avenue of the Americas, New York, New York 10104, in accordance with the Escrow Agreement. The date of the Closing is hereinafter referred to as the "Closing Date."

(c) At the Closing the parties shall deliver the following items (with respect to the Closing of the purchase and sale of the Shares to be acquired by JNC hereunder, such deliveries will be made prior to the Closing in accordance with and subject to the terms and
conditions of the Escrow Agreement): (i) the Company shall deliver or cause to be delivered (A) stock certificates representing the aggregate Stated Value of the Shares to be acquired hereunder by each Purchaser as set forth in Schedule 1, registered in the name of such Purchaser and (B) the Legal Opinion; (ii) each Purchaser shall deliver or cause to be delivered immediately available funds equal to the aggregate Stated Value of Shares to be acquired by such Purchaser as set forth in Schedule 1, in United States dollars and (iii) each party hereto shall deliver or cause to be delivered all other executed instruments, agreements and certificates as are required to be delivered by or on their behalf at the Closing, including without limitation, this Purchase Agreement, the Registration Rights Agreement and, with respect to the Company and JNC, the Escrow Agreement. The Company acknowledges that its outside counsel has received, and the Purchasers (other than JNC) and the Company agree that the Company’s outside counsel shall continue to hold, $287,500, representing the Purchase Price to be paid at Closing by such other Purchasers.

ARTICLE III

REPRESENTATIONS AND WARRANTIES

Section 3.1. Representations and Warranties of the Company. The Company hereby represents and warrants to the Purchasers as follows:

(a) Organization and Qualification. The Company is a corporation, duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, with the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. The Company has no subsidiaries other than as set forth in Schedule 3.1(a) (collectively, the “Subsidiaries”). Each of the Subsidiaries is a corporation, duly incorporated, validly existing and in good standing under the laws of the jurisdiction of its incorporation, with the requisite corporate power and authority to own and use its properties and assets and to carry on its business as currently conducted. Each of the Company and the Subsidiaries is duly qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the nature of the business conducted or property owned by it makes such qualification necessary, except where the failure to be so qualified or in good standing, as the case may be, could not, individually or in the aggregate, (x) adversely affect the legality, validity or enforceability of the Shares or any Transaction Document, (y) have a material adverse effect on the results of operations, assets, prospects, or condition (financial or otherwise) of the Company and the Subsidiaries, taken as a whole or (z) adversely impair the Company’s ability to perform fully on a timely basis its obligations under any Transaction Document (any of (x), (y) or (z), a “Material Adverse Effect”).

(b) Authorization; Enforcement. The Company has the requisite corporate power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents and to otherwise carry out its obligations thereunder. The execution and
delivery of each Transaction Document by the Company and the consummation by it of the transactions contemplated thereby have been duly authorized by all necessary action on the part of the Company. Each Transaction Document has been duly executed by the Company and, when delivered in accordance with the terms hereof and of the Escrow Agreement, each Transaction Document shall constitute the legal, valid and binding obligation of the Company enforceable against the Company in accordance with its terms. Neither the Company nor any Subsidiary is in violation of any provision of its respective certificate of incorporation, bylaws or other charter documents.

(c) Capitalization. The authorized, issued and outstanding capital stock of the Company and each of the Subsidiaries is set forth in Schedule 3.1(c). No shares of Common Stock are entitled to preemptive or similar rights. Except as specifically disclosed in Schedule 3.1(c), there are no outstanding options, warrants, rights to subscribe to, calls or commitments of any character whatsoever relating to, or, except as a result of the purchase and sale of the Shares hereunder, securities, rights or obligations convertible into or exchangeable for, or giving any Person any right to subscribe for or acquire, any shares of Common Stock, or contracts, commitments, understandings, or arrangements by which the Company or any Subsidiary is or may become bound to issue additional shares of Common Stock or securities or rights convertible or exchangeable into shares of Common Stock. To the knowledge of the Company, except as specifically disclosed in the SEC Documents or Schedule 3.1(c), no Person or group of Persons beneficially owns (as determined pursuant to Rule 13d-3 promulgated under the Exchange Act) or has the right to acquire by agreement with or by obligation binding upon the Company beneficial ownership of in excess of 5% of the Common Stock.

(d) Issuance of Securities. The Shares are duly authorized and, when issued in accordance with the terms hereof, shall be validly issued, fully paid and nonassessable, free and clear of all Liens. The Company has and at all times while any Shares are outstanding will maintain an adequate reserve of duly authorized shares of Common Stock to enable it to perform its conversion obligations under the Certificate of Designation, which reserve shall be no less than 175% of the number of shares of Common Stock as would be issuable upon conversion in full of the Shares, assuming such conversion occurred on the Original Issue Date or the Effective Date (as defined in the Registration Rights Agreement), whichever yields a lower Conversion Price (the "Initial Reserve"). If at any time the sum of the number of shares of Common Stock issuable upon conversion in full of the then outstanding Shares exceeds 85% of the Initial Reserve, then the Company shall duly reserve 175% of the number of shares of Common Stock equal to such excess to fulfill such obligations. This obligation shall similarly apply to successive excesses. When issued in accordance with the Certificate of Designation the Underlying Shares will be duly authorized, validly issued, fully paid and nonassessable, and free and clear of all Liens.

(e) No Conflicts. The execution, delivery and performance of the Transaction Documents by the Company and the consummation by the Company of the transactions contemplated thereby do not and will not (i) conflict with or violate any provision of its certificate of incorporation, bylaws or other
default (or an event which with notice or lapse of time or both would become a default) under, or give to others any rights of termination, amendment, acceleration or cancellation of, any agreement, indenture or instrument (evidencing a Company debt or otherwise) to which the Company is a party or by which any property or asset of the Company is bound or affected, or (iii) result in a violation of any law, rule, regulation, order, judgment, injunction, decree or other restriction of any court or governmental authority to which the Company is subject (including federal and state securities laws and regulations), or by which any property or asset of the Company is bound or affected; except in the case of each of clauses (ii) and (iii), as could not, individually or in the aggregate, have or result in a Material Adverse Effect. The business of the Company is not being conducted in violation of any law, ordinance or regulation of any governmental authority, except for violations which, individually and in the aggregate, could not have or result in a Material Adverse Effect.

(f) Consents and Approvals. Neither the Company nor any Subsidiary is required to obtain any consent, waiver, authorization or order of, or make any filing or registration with, any court or other federal, state, local, foreign or other governmental authority or other Person in connection with the execution, delivery and performance by the Company of the Transaction Documents, other than (i) the filing of the Certificate of Designation with the Secretary of State of Delaware, (ii) the filing of one or more Underlying Securities Registration Statements with the Commission and the making of applicable blue-sky filings under state securities laws with respect to the Securities and the transactions contemplated hereby, each as contemplated hereby and by the Registration Rights Agreement, (iii) the application for the listing of the Underlying Shares on the Nasdaq SmallCap Market (and on each other national securities exchange, market or trading facility on which the Common Stock is then listed), and (iv) other than, in all other cases, where the failure to obtain such consent, waiver, authorization or order, or to give or make such notice or filing, could not, individually or in the aggregate, have or result in a Material Adverse Effect (the “Required Approvals”).

(g) Litigation; Proceedings. Except as specifically disclosed in the Disclosure Materials, there is no action, suit, notice of violation, proceeding or investigation pending or, to the best knowledge of the Company, threatened against or affecting the Company or any of its Subsidiaries or any of their respective properties before or by any court, governmental or administrative agency or regulatory authority (federal, state, county, local or foreign) which (i) adversely affects or challenges the legality, validity or enforceability of any Transaction Document or the Securities or (ii) could, individually or in the aggregate, have or result in a Material Adverse Effect.

(h) No Default or Violation. Neither the Company nor any Subsidiary (i) is in default under or in violation of (or has received notice of
a claim that it is in default under or that it is in violation of any indenture, loan or credit agreement or any other agreement or instrument to which it is a party or by which it or any of its properties is bound, (ii) is in violation of any order of any court, arbitrator or governmental body, or (iii) is in violation of any statute, rule or regulation of any governmental authority, except as could not, individually or in the aggregate, have or result in a Material Adverse Effect.

(i) Private Offering. Assuming the accuracy of the representations and warranties of the Purchasers contained in Sections 3.2(b)-3.2(f), the offering, issuance or sale of the Securities as contemplated hereunder are exempt from the registration requirements of the Securities Act.

(j) Certain Fees. Except for fees payable to Paramount Capital, Inc., no fees or commissions will be payable by the Company to any broker, financial advisor or consultant, finder, investment banker or Person performing a similar function, placement agent, or bank with respect to the transactions contemplated hereby. The Purchasers shall have no obligation with respect to such fees or commissions or with respect to any claims made by or on behalf of other Persons for fees or commissions of a type contemplated in this Section that may be due in connection with the transactions contemplated hereby. The Company shall indemnify and hold harmless each Purchaser, its respective employees, officers, directors, agents, and partners, and their respective Affiliates, from and against all claims, losses, damages, costs (including the costs of preparation and reasonable attorney’s fees) and expenses suffered in respect of any such claimed or existing fees, as and when incurred.

(k) SEC Documents; Financial Statements; No Adverse Change. The Company has filed all reports required to be filed by it under the Exchange Act, including pursuant to Section 13(a) or 15(d) thereof, since July 1, 1996 (the foregoing materials being collectively referred to herein as the “SEC Documents”) on a timely basis or has received a valid extension of such time of filing and has filed any such SEC Documents prior to the expiration of any such extension. As of their respective dates, the SEC Documents complied in all material respects with the requirements of the Securities Act and the Exchange Act and the rules and regulations of the Commission promulgated thereunder, and none of the SEC Documents, when filed, contained any untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. The financial statements of the Company included in the SEC Documents comply in all material respects with applicable accounting requirements and the rules and regulations of the Commission with respect thereto. Such financial statements have been prepared in accordance with generally accepted accounting principles applied on a consistent basis during the periods involved, except as may be otherwise specified in such financial statements or the notes thereto, and fairly present in all material respects the financial position of the Company as of and for the dates thereof and the results of operations, retained earnings and cash flows for the periods then ended, subject, in the case of unaudited statements, to
normal year-end audit adjustments. Since the date of the financial statements included in the Company’s Quarterly Report on Form 10-QSB for the period ended December 31, 1997, (a) there has been no event, occurrence or development that has had or that could have or result in a Material Adverse Effect, (b) there has been no material change in the Company’s accounting principles, practices or methods and (c) the Company has conducted its business only in the ordinary course of such business. The Company last filed audited financial statements with the Commission for the fiscal year ended June 30, 1997, and has not received any comments from the Commission in respect thereof.

-8-

(l) Seniority. Except for the Company’s Series A Preferred Stock, no class of equity securities of the Company is senior to the Shares in right of payment, whether upon liquidation, dissolution or otherwise.

(m) Form S-3 Eligibility. The Company is, and at the Closing Date will be, eligible to register securities for resale with the Commission under Form S-3 promulgated under the Securities Act.

(n) Investment Company. The Company is not, and is not an "Affiliate person" of, an "investment company" within the meaning of the Investment Company Act of 1940, as amended.

(o) Exclusivity. The Company shall not issue or sell Preferred Stock to any Person other than the Purchasers.

(p) Listing and Maintenance Requirements Compliance. Since the date that the listing of the Common Stock was initially approved for trading on the Nasdaq SmallCap Market, the Company has not received notice (written or oral) from any stock exchange, market or trading facility on which the Common Stock is or has been listed (or on which it is or has been quoted) to the effect that the Company is not in compliance with the listing or maintenance requirements of such exchange, market or trading facility. The Company is in compliance with all such maintenance requirements.

(q) Patents and Trademarks. The Company has, or has rights to use, all patents, patent applications, trademarks, trademark applications, service marks, trade names, copyrights, licenses, trade secrets and other intellectual property rights which are necessary for use in connection with its business or which the failure to so have would have a Material Adverse Effect (collectively, the "Intellectual Property Rights"). To the best knowledge of the Company, none of the Intellectual Property Rights infringe on any rights of any other Person, and the Company either owns or has duly licensed or otherwise acquired all necessary rights with respect to the Intellectual Property Rights. The Company has not received any notice from any third party of any claim of infringement by the Company of any of the Intellectual Property Rights, and has no reason to believe there is any basis for any such claim. To the best knowledge of the Company, there is no existing infringement by another Person on any of the Intellectual Property Rights.
(r) Registration Rights. Except as and to the extent set forth on Schedule 6(b) to the Registration Rights Agreement, the Company has not granted or agreed to grant any Person any rights (including "piggy-back" registration rights) to have any securities of the Company registered with the Commission which have not been satisfied.

(s) Conversion Procedures. Other than the Conversion Notice attached to the Certificate of Designation, there are no other procedures to be followed or legal opinions or other documents required be delivered in order to permit holders to exercise their right to convert Shares in accordance with the time periods set forth in the Certificate of Designation.

(t) Disclosure. All information relating to or concerning the Company set forth in the Transaction Documents or the Disclosure Materials (other than the SEC Documents) is true and correct in all material respects and does not fail to state any material fact necessary in order to make the statements herein or therein, in light of the circumstances under which they were made, not misleading. The Company confirms that, to the best of its knowledge, it has not provided any Purchaser or any of such Purchaser's agents or counsel any information that constitutes or might constitute material nonpublic information. The Company understands and confirms that the Purchasers shall be relying on the foregoing representation in effecting transactions in securities of the Company.

Section 3.2. Representations and Warranties of the Purchasers. Each Purchaser hereby, severally and not jointly, represents and warrants to the Company as follows:

(a) Organization; Authority. If such Purchaser is an entity, such Purchaser is an entity organized, validly existing and in good standing under the laws of the jurisdiction of its organization with the requisite power and authority to enter into and to consummate the transactions contemplated by the Transaction Documents to which it is a party and to carry out its obligations thereunder. If such Purchaser is an individual, such Purchaser has the capacity to enter into and to consummate the transactions contemplated by the Transaction Documents to which it is a party and to carry out its obligations thereunder. The purchase of the Securities to be acquired by such Purchaser hereunder has been duly authorized by all necessary action on the part of such Purchaser. Each of this Agreement, the Registration Rights Agreement and, with respect to JNC only, the Escrow Agreement has been duly executed by such Purchaser and, when delivered by such Purchaser in accordance with the terms hereof and, with respect to JNC, of the Escrow Agreement, shall constitute the valid and legally binding obligation of such Purchaser, enforceable against it in accordance with its terms.

(b) Investment Intent. Such Purchaser is acquiring the Securities
to be acquired by it hereunder for its own account for investment purposes only and not with a view to or for distributing or reselling such Securities or any part thereof or interest therein, without prejudice, however, to such Purchaser's right, subject to the provisions of this Agreement and the Registration Rights Agreement, at all times to sell or otherwise dispose of all or any part of such Securities pursuant to an effective registration statement under the Securities Act and in compliance with applicable state securities laws or under an exemption from such registration.

(c) Purchaser Status. At the time such Purchaser was offered the Securities to be acquired by it hereunder, it was, at the date hereof, it is, and at the Closing Date, it will be, an "accredited investor" as defined in Rule 501(a) under the Securities Act.

(d) Experience of Purchaser. Such Purchaser, either alone or together with its representatives, has such knowledge, sophistication and experience in business and financial matters so as to be capable of evaluating the merits and risks of the prospective investment in the Securities, and has so evaluated the merits and risks of such investment.

(e) Ability of Purchaser to Bear Risk of Investment. Such Purchaser acknowledges that an investment in the Securities to be acquired by it hereunder is speculative and involves a high degree of risk. Such Purchaser is able to bear the economic risk of an investment in the Securities and, at the present time, is able to afford a complete loss of such investment.

(f) Access to Information. Such Purchaser acknowledges receipt of the Disclosure Materials and further acknowledges that it has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the offering of the Securities, and the merits and risks of investing in the Securities, (ii) access to information about the Company and the Company's financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment; and (iii) the opportunity to obtain such additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to the investment and to verify the accuracy and completeness of the information contained in the Disclosure Materials. Neither such inquiries nor any other investigation conducted by or on behalf of such Purchaser or its representatives, agents or counsel shall modify, amend or affect such Purchaser's right to rely on the truth, accuracy and completeness of the Disclosure Materials and the Company's representations and warranties contained in the Transaction Documents.

(g) Reliance. Such Purchaser understands and acknowledges that (i) the Securities to be acquired by it hereunder are being offered and sold to it without registration under the Securities Act in a private placement that is
exempt from the registration provisions of the Securities Act and (ii) the availability of such exemption, depends in part on, and the Company will rely upon the accuracy and truthfulness of, the foregoing representations and such Purchaser hereby consents to such reliance.

The Company acknowledges and agrees that the Purchasers make no representations or warranties with respect to the transactions contemplated hereby other than those specifically set forth in this Section 3.2.

ARTICLE IV

OTHER AGREEMENTS OF THE PARTIES

Section 4.1. Transfer Restrictions. (a) The Securities may only be disposed of pursuant to an effective registration statement under the Securities Act, to the Company or pursuant to an available exemption from or in a transaction not subject to the registration requirements thereof. In connection with any transfer of any Securities other than pursuant to an effective registration statement or to the Company, the Company may require the transferor to provide to the Company an opinion of counsel selected and paid for by the transferor, the form and substance of which opinion shall be reasonably satisfactory to the Company, to the effect that such transfer does not require registration under the Securities Act. Notwithstanding the foregoing, the Company hereby consents to and agrees to register any transfer of Shares by a Purchaser to an Affiliate thereof and to any transfers among any such Affiliates provided the transferee certifies to the Company that it is an "accredited investor" as defined in Rule 501(a) under the Securities Act. Any such Affiliate transferee shall have the rights of the Purchaser under the Transaction Documents.

(b) The Purchasers agree to the imprinting, so long as is required by this Section 4.1(b), of the following legend on the certificates representing the Securities:

NEITHER THESE SECURITIES NOR THE SECURITIES INTO WHICH THESE SECURITIES ARE CONVERTIBLE HAVE BEEN REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION OR THE SECURITIES COMMISSION OF ANY STATE IN RELIANCE UPON AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND, ACCORDINGLY, MAY NOT BE OFFERED OR SOLD EXCEPT PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT OR PURSUANT TO AN AVAILABLE EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND IN ACCORDANCE WITH APPLICABLE STATE SECURITIES LAWS.

THE SHARES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO CERTAIN RESTRICTIONS ON CONVERSION SET FORTH IN SECTION 4.8 OF THE CONVERTIBLE
Underlying Shares shall not contain the legend set forth above or any other legend if the conversion of Shares or other issuances of Underlying Shares, as the case may be, occurs at any time while an Underlying Securities Registration Statement is effective under the Securities Act or, in the event there is not an effective Underlying Securities Registration Statement at such time, if in the opinion of counsel to the Company such legend is not required under applicable requirements of the Securities Act (including judicial interpretations and pronouncements issued by the staff of the Commission). The Company agrees that it will provide Purchasers, upon request, with a certificate or certificates representing Underlying Shares, free from such legend at such time as such legend is no longer required hereunder. The Company may not make any notation on its records or give instructions to any transfer agent of the Company which enlarge the restrictions of transfer set forth in this Section 4.1(b).

Section 4.2. Acknowledgment of Dilution. The Company acknowledges that the issuance of Underlying Shares upon conversion of the Shares may result in dilution of the outstanding shares of Common Stock, which dilution may be substantial under certain market conditions. The Company further acknowledges that its obligation to issue Underlying Shares in accordance with the Certificate of Designation is unconditional and absolute regardless of the effect of any such dilution.

Section 4.3. Furnishing of Information. As long as any Purchaser owns Securities, the Company covenants to timely file (or obtain extensions in respect thereof and file within the applicable grace period) all reports required to be filed by the Company after the date hereof pursuant to Section 13(a) or 15(d) of the Exchange Act. If at any time prior to the date on which all Purchasers may resell all of their respective Underlying Shares without volume restrictions pursuant to Rule 144(k) promulgated under the Securities Act (as determined by counsel to the Company pursuant to a written opinion letter to such effect, addressed and acceptable to the Company's transfer agent for the benefit of and enforceable by the Purchasers) the Company is not required to file reports pursuant to such sections, it will prepare and furnish to the Purchasers and make publicly available in accordance with Rule 144(c) promulgated under the Securities Act annual and quarterly financial statements, together with a discussion and analysis of such financial statements in form and substance substantially similar to those that would otherwise be required to be included in reports required by Section 13(a) or 15(d) of the Exchange Act in the time period that such filings would have been required to have been made under the Exchange Act. The Company further covenants that it will take such further action as any holder of Securities may reasonably request, all to the extent required from time to time to enable such Person to sell Securities
without registration under the Securities Act within the limitation of the exemptions provided by Rule 144 promulgated under the Securities Act, including the legal opinion referenced above in this Section. Upon the request of any such Person, the Company shall deliver to such Person a written certification of a duly authorized officer as to whether it has complied with such requirements.

Section 4.4. Use of Proceeds. The Company shall use all of the proceeds from the sale of the Securities for working capital purposes and not for the satisfaction of any portion of Company debt in excess of an aggregate of $1,200,000 or to redeem any Company equity or equity-equivalent securities. Pending application of the proceeds of this placement in the manner permitted hereby the Company will invest such proceeds in interest bearing accounts and/or short-term, investment grade interest bearing securities.

Section 4.5. Listing of Underlying Shares. The Company shall (a) not later than the fifth Business Day following the Closing Date prepare and file with the Nasdaq SmallCap Market (as well as any other national securities exchange, market or trading facility on which the Common Stock is then listed) an additional shares listing application covering at least 175% of the number of Underlying Shares as would be issuable upon a conversion in full of the Shares, assuming such conversion occurred on the Original Issue Date, (b) take all steps necessary to cause such shares to be approved for listing on the Nasdaq SmallCap Market (as well as on any other national securities exchange, market or trading facility on which the Common Stock is then listed) as soon as possible thereafter, and (c) provide to the Purchasers evidence of such listing, and the Company shall maintain the listing of its Common Stock on such exchange or market. In addition, if at any time the number of shares of Common Stock issuable on conversion of all then outstanding Shares is greater than the number of shares of Common Stock theretofore listed with the Nasdaq SmallCap Market (and any such other national securities exchange, market or trading facility), the Company shall promptly take such action (including the actions described in the preceding sentence) to file an additional shares listing application with the Nasdaq SmallCap Market (and any such other national securities exchange, market or trading facility) covering at least a number of shares equal to 175% of the number of Underlying Shares as would then be issuable upon a conversion in full of the Shares.

Section 4.6. Integration. The Company shall not and shall use its best efforts to ensure that no Affiliate shall sell, offer for sale or solicit offers to buy or otherwise negotiate in respect of any security (as defined in Section 2 of the Securities Act) that would be integrated with the offer or sale of the Securities in a manner that would require the registration under the Securities Act of the issue, offer or sale of the Securities to the Purchasers.

Section 4.7. Increase in Authorized Shares. At such time as the Company would be, if a notice of conversion were to be delivered on such date, precluded from converting in full all of the Shares that remain unconverted at such date due to the unavailability of a sufficient number of shares of
authorized but unissued or re-acquired Common Stock, the Board of Directors of the Company shall promptly (and in any case within 30 Business Days from such date) prepare and mail to the stockholders of the Company proxy materials requesting authorization to amend the Company’s certificate of incorporation to increase the number of shares of Common Stock which the Company is authorized to issue to at least a number of shares equal to the sum of (i) all shares of Common Stock then outstanding, (ii) the number of shares of Common Stock issuable on account of all outstanding warrants, options and convertible securities (other than the Preferred Stock) and on account of all shares reserved under any stock option, stock purchase, warrant or similar plan, and (iii) 175% of the number of Underlying Shares as would then be issuable upon a conversion in full of all outstanding Shares in accordance with the terms of this Agreement and the Certificate of Designation. In connection therewith, the Board of Directors shall (x) adopt proper resolutions authorizing such increase, (y) recommend to and otherwise use its best efforts to promptly and duly obtain stockholder approval to carry out such resolutions (and hold a special meeting of the stockholders no later than the 60th day after delivery of the proxy materials relating to such meeting) and (z) within 5 Business Days of obtaining such stockholder authorization, file an appropriate amendment to the Company’s certificate of incorporation to evidence such increase. If the Company does not receive stockholder approval for such increase or the Company fails to file an appropriate amendment in the time provided therefor by the immediately preceding sentence, then the provisions of Section 5(c) of the Certificate of Designation and Section 4.14 hereof shall apply.

Section 4.8. Purchaser Ownership of Common Stock. JNC agrees not to use its ability to convert Shares to the extent such conversion or exercise would result in it beneficially owning (as determined in accordance with Section 13(d) of the Exchange Act and the rules thereunder) in excess of 4.999% of the then issued and outstanding shares of Common Stock, including shares issuable upon conversion of the Shares held by it after application of this Section. To the extent that the limitation contained in this Section applies, the determination of whether Shares are convertible by JNC (in relation to other securities owned by it) and of which Shares are convertible shall be in the sole discretion of JNC, and the submission of Shares for conversion shall be deemed to be JNC’s determination of whether such Shares are convertible (in relation to other securities owned by it) and of which of its Shares are convertible, in each case subject to such aggregate percentage limitation, and the Company shall have no obligation to verify or confirm the accuracy of such determination. Nothing contained herein shall be deemed to restrict the right of JNC to convert Shares at such time as such conversion will not violate the provisions of this Section. The provisions of this Section may be waived by JNC upon not less than 75 days prior notice to the Company, and the provisions of this Section shall continue to apply until such 75th day (or later, if stated in the notice of waiver).

Section 4.9. Right of Participation; Subsequent Registrations. (a) The Company shall not, other than pursuant to the currently contemplated
strategy described in Schedule 6(b) to the Registration Rights Agreement, directly or indirectly, without the prior written consent of JNC, offer, sell, grant any option to purchase, or otherwise dispose of (or announce any offer, sale, grant or any option to purchase or other disposition) any of its or its Affiliates' equity or equity-equivalent securities or any instrument that permits the holder thereof to acquire Common Stock at any time over the life of the security or investment at a price that is less than the closing sales price of the Common Stock at the time of issuance of such security or investment (a "Subsequent Financing") for a period of 180 days after the Closing Date, except (i) the granting of options or warrants to employees, officers and directors, and the issuance of shares upon exercise of options granted, under any stock option plan or employment agreement or, with respect to senior management, consulting agreements heretofore or hereinafter duly adopted by the Company, (ii) shares issued upon exercise of any currently outstanding warrants and upon conversion of any currently outstanding convertible preferred stock in each case disclosed in Schedule 3.1(c), and (iii) shares of Common Stock issued upon conversion of the Shares, unless (A) the Company delivers to JNC a written notice (the "Subsequent Financing Notice") of its intention to effect such Subsequent Financing, which Subsequent Financing Notice shall describe in reasonable detail the proposed terms of such Subsequent Financing, the amount of proceeds intended to be raised thereunder, the Persons with whom such Subsequent Financing shall be effected, and attached to which shall be a term sheet or similar document relating thereto, and (B) JNC shall not have notified the Company by 5:00 p.m. (Eastern Standard time) on the tenth (10th) Trading Day after its receipt of the Subsequent Financing Notice of its willingness to provide (or to cause its sole designee to provide), subject to completion of mutually acceptable documentation, up to $2,000,000 (at JNC's option) of the financing described in the Subsequent Financing Notice to the Company on substantially the terms set forth in the Subsequent Financing Notice. If JNC shall fail to notify the Company of its (or its designee's) intention to participate in such Subsequent Financing and to enter into such negotiations within such time period, the Company may effect the Subsequent Financing substantially upon the terms and to the Persons (or Affiliates of such Persons) set forth in the Subsequent Financing Notice without participation therein by JNC; provided, that the Company shall provide JNC with a second Subsequent Financing Notice, and JNC shall again have the right of participation set forth above in this paragraph (a), if the Subsequent Financing subject to the initial Subsequent Financing Notice shall not have been consummated for any reason on the terms set forth in such Subsequent Financing Notice within forty-five (45) days after the date of the initial Subsequent Financing Notice with the Person (or an Affiliate of such Person) identified in the Subsequent Financing Notice. The right of participation granted in this paragraph to JNC shall confer no rights to any Purchaser other than JNC to participate in a future financing by the Company.

(b) Except for Underlying Shares and other "Registrable Securities" (as such term is defined in the Registration Rights Agreement) to be
registered in accordance with the Registration Rights Agreement and for Company securities permitted under Section 6(b) of the Registration Rights Agreement to be registered in the Underlying Securities Registration Statement, the Company shall not, for a period of not less than forty-five (45) days after the date that the Underlying Securities Registration Statement is declared effective by the Commission, without the prior written consent of the Purchasers, (i) issue or sell any of its or any of its Affiliates’ equity or equity-equivalent securities pursuant to Regulation S promulgated under the Securities Act, or (ii) register for resale any securities of the Company. Any days that a Purchaser is not permitted to sell Underlying Shares under the Underlying Securities Registration Statement shall be added to such forty-five (45) day period for the purposes of (i) and (ii) above.

Section 4.10. Notice of Breaches. Each of the Company and each Purchaser shall give prompt written notice to the other of any breach by it of any representation, warranty or other agreement contained in any Transaction Document, as well as any events or occurrences arising after the date hereof, which would reasonably be likely to cause any representation or warranty or other agreement of such party, as the case may be, contained in the Transaction Document to be incorrect or breached as of such Closing Date. However, no disclosure by a party pursuant to this Section shall be deemed to cure any breach of any representation, warranty or other agreement contained in any Transaction Document.

Notwithstanding the generality of the foregoing, the Company shall promptly notify the Purchasers of any notice or claim (written or oral) that it receives from any lender of the Company to the effect that the consummation of the transactions contemplated by the Transaction Documents violates or would violate any written agreement or understanding between such lender and the Company, and the Company shall promptly furnish by facsimile to the Purchasers a copy of any written statement in support of or relating to such claim or notice.

Section 4.11. Conversion and Exercise Obligations of the Company. The Company shall honor conversions of the Shares and shall deliver Underlying Shares upon such conversions in accordance with the respective terms and conditions and time periods set forth in the Certificate of Designation.

Section 4.12. Transfer of Intellectual Property Rights. Except in the ordinary course of the Company’s business consistent with past practice or in connection with the sale of all or substantially all of the assets of the Company, the Company shall not transfer, sell or otherwise dispose of, any Intellectual Property Rights, or allow the Intellectual Property Rights to become subject to any Liens, or fail to renew such Intellectual Property Rights (if renewable and would otherwise expire).

Section 4.13. Reimbursement. In the event that any Purchaser, other than by reason of its gross negligence or willful misconduct, becomes involved in any capacity in any action, proceeding or investigation brought by
or against any Person, including stockholders of the Company, in connection with or as a result of the consummation of the transactions contemplated pursuant to the Transaction Documents, the Company will reimburse such Purchaser for its reasonable legal and other expenses (including the cost of any investigation and preparation) incurred in connection therewith. The reimbursement obligations of the Company under this paragraph shall be in addition to any liability which the Company may otherwise have, shall extend upon the same terms and conditions to any Affiliate of each Purchaser and each of the partners, directors, agents, employees and controlling persons (if any), as the case may be, of each Purchaser and any such Affiliate, and shall be binding upon and inure to the benefit of any successors, assigns, heirs and personal representatives of the Company, each Purchaser and any such Affiliate and any such Person. The Company also agrees that no Purchaser or any such Affiliates, partners, directors, agents, employees or controlling persons shall have any liability to the Company or any Person asserting claims on behalf of or in right of the Company in connection with or as a result of the consummation of the Transaction Documents, except to the extent that any losses, claims, damages, liabilities or expenses incurred by the Company result from the gross negligence or willful misconduct of such Purchaser or its partners, directors, agents, employees and controlling persons (if any), in connection with the transactions contemplated by this Agreement. No Purchaser shall, without the prior written consent of the Company, which shall not be unreasonably withheld or delayed, effect any settlement of any action in respect of which the Company is a party.

Section 4.14. Liquidated Damages Upon Occurrence of Certain Events. (a) If the Common Stock shall for any reason fail to be listed on, or be suspended from trading from, the Nasdaq National Market or Nasdaq SmallCap Market for three (3) Trading Days (which need not be consecutive Trading Days), then each holder of Preferred Stock then outstanding shall have the right to require the Company to pay to it in cash an amount equal to 25% of the aggregate Stated Value of all shares of Preferred Stock then held by it, as liquidated damages and not as a penalty. Any such payment by the Company shall be due in full within five (5) Business Days of the date that the holder of such Preferred Stock notifies the Company of the exercise of the right to payment contained in this paragraph. Interest shall accrue and be payable on such liquidated damages at the rate of 18% per annum until the full amount of such liquidated damages, plus all accrued and unpaid interest thereon, are paid in full. A Purchaser shall not be entitled to liquidated damages as a result of a suspension or delisting described above in this paragraph if it has previously provided the Company with a Subsequent Reduced Conversion Price Notice pursuant Section 5(c)(i) of the Certificate of Designation, except in the event that the suspension or delisting that was the subject of such Subsequent Reduced Conversion Price Notice had been cured and a new suspension or delisting arose thereafter. For purposes hereof, shares of Preferred Stock for which a conversion has been requested in accordance with the Certificate of Designation shall be deemed to be outstanding if such delisting or suspension occurs on or prior to the date that the holder receives Underlying Shares from the Company in respect thereof.
(b) If (i) the conversion rights of a Purchaser are suspended for any reason, or if a Purchaser is not for any reason permitted to sell Registrable Securities under an Underlying Securities Registration Statement, or (ii) the Company fails to comply with requests by a Purchaser for conversion of any shares of its Preferred Stock into Underlying Shares in accordance with the terms and time periods set forth in the Certificate of Designation or (iii) the Company is required to convene a meeting of stockholders pursuant to Section 5(a)(ii) of the Certificate of Designation and fails to convene such meeting within the time period specified in such Section or does so convene such a meeting within such time period but fails to obtain Shareholder Approval (as defined in the Certificate of Designation) at such meeting (any such failure or breach being referred to as an "Event" and, for purposes of clauses (i), (ii) and (iii) the date on which such Event occurs, being referred to as "Event Date"), then, each such Purchaser may require the Company to pay to it in cash, 1.5% of the aggregate Stated Value of all shares of Preferred Stock then held by it, as liquidated damages and not as a penalty. In addition, on each monthly anniversary of the Event Date until the Event is cured, each such Purchaser may require the Company to pay to it in cash, 2.5% of the aggregate Stated Value of all shares of Preferred Stock then held by it, as liquidated damages and not as a penalty. A Purchaser shall not be entitled to liquidated damages for an Event for any month for which it has elected to deliver to the Company an Initial Reduced Conversion Price Notice pursuant Section 5(c)(i) of the Certificate of Designation in respect of such Event. However, a Purchaser shall be entitled to receive both the benefits of the Initial Reduced Conversion Price Notice and the liquidated damages contemplated in this paragraph for the same Event, but not both in the same monthly period. The Purchasers shall have the right to liquidated damages for multiple and/or successive Events. For purposes hereof, shares of Preferred Stock for which a conversion has been requested in accordance with the Certificate of Designation shall be deemed to be outstanding and held by the converting holder if an Event occurs on or prior to the date that the holder receives Underlying Shares from the Company in respect thereof.

(B) If the Company fails for any reason to deliver to a holder certificates representing the number of Underlying Shares issuable upon a conversion of Preferred Stock in accordance with Section 5(b)(i) of the Certificate of Designation prior to the third Trading Day after the Conversion Date, then the Company shall pay to the converting holder, in cash, as liquidated damages and not as a penalty, $1,500 for each day after such third Trading Day until such certificates are received. Nothing herein shall limit a holder’s right to pursue actual damages for the Company’s failure to deliver certificates representing such Underlying Shares within the period specified herein and in the Certificate of Designation, and such holder shall have the right to pursue all remedies available to it at law or in equity including, without limitation, a decree of specific performance and/or injunctive relief. The exercise of any such rights shall be cumulative and shall not prohibit the holders from seeking to enforce other damages available under this Agreement or the Certificate of Designation.
ARTICLE V

MISCELLANEOUS

Section 5.1. Fees and Expenses. At the Closing, the Company shall pay (i) $25,000 to the Escrow Agent for the legal fees and disbursements of the Purchasers in connection with the preparation and negotiation of the Transaction Documents and (ii) $5,000 to JNC for its due diligence expenses and disbursements in connection with the transactions contemplated hereby. Other than the amounts contemplated by the immediately preceding sentence, and except as set forth in the Registration Rights Agreement, each party shall pay the fees and expenses of its advisers, counsel, accountants and other experts, if any, and all other expenses incurred by such party incident to the negotiation, preparation, execution, delivery and performance of this Agreement. The Company shall pay all stamp and other taxes and duties levied in connection with the issuance of the Shares pursuant hereto. The Purchasers shall be responsible for their own tax liability that may arise as a result of the investment hereunder or the transactions contemplated by this Agreement.

Section 5.2. Entire Agreement; Amendments, Exhibits and Schedules. This Agreement, together with the Exhibits and Schedules hereto, the Certificate of Designation, the Registration Rights Agreement and (with respect to JNC and the Company) the Escrow Agreement contain the entire understanding of the parties with respect to the subject matter hereof and supersede all prior agreements and understandings, oral or written, with respect to such matters, including, without limitation, any and all agreements and understandings with respect to the Unit Offering. The Exhibits and Schedules to this Agreement are hereby incorporated herein and made a part hereof for all purposes as if fully set forth herein.

Section 5.3. Notices. Any notice or other communication or delivery required or permitted to be provided hereunder shall be in writing and shall be deemed to have been received on the earliest of (i) the date of transmission, if such notice or communication is delivered to the address or to the facsimile telephone number (as the case may be) specified in this Section prior to 8:00 p.m. (Eastern Standard time) on a Business Day, (ii) the Business Day after the date of transmission or hand delivery, if such notice or communication is delivered to the address or at the facsimile telephone number (as the case may be) specified in this Section later than 8:00 p.m. (Eastern Standard time) on any date and earlier than 11:59 p.m. (Eastern Standard time) on such date, (iii) the Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications to any Purchaser shall be as set forth below such Purchaser’s name on Schedule 1 and, if to the Company, to the following address:

Palatin Technologies, Inc.
214 Carnegie Center
Princeton, NJ 08540
Facsimile No.: (609) 452-0880
Attn: Edward J. Quilty
Section 5.4. Amendments; Waivers. No provision of this Agreement may be waived or amended except in a written instrument signed, in the case of an amendment, by the Company and each Purchaser, or, in the case of a waiver, by the party against whom enforcement of any such waiver is sought. No waiver of any default with respect to any provision, condition or requirement of this Agreement shall be deemed to be a continuing waiver in the future or a waiver of any other provision, condition or requirement hereof, nor shall any delay or omission of either party to exercise any right hereunder in any manner impair the exercise of any such right accruing to it thereafter.

Section 5.5. Headings. The headings herein are for convenience only, do not constitute a part of this Agreement and shall not be deemed to limit or affect any of the provisions hereof.

Section 5.6. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of the parties and their successors and permitted assigns, including any Persons to whom a Purchaser transfers Shares. The assignment by a party of this Agreement or any rights hereunder shall not affect the obligations of such party under this Agreement.

Section 5.7. No Third-Party Beneficiaries; Obligations Several. This Agreement is intended for the benefit of the parties hereto and their respective successors and permitted assigns and, other than with respect to permitted assignees under Section 5.6, is not for the benefit of, nor may any provision hereof be enforced by, any other Person. The obligations of the Purchasers under the Transaction Documents are several and not joint and no Purchaser shall be responsible for any obligations of or misdeeds by any other Purchaser.

Section 5.8. Governing Law. This Agreement shall be governed by and construed and enforced in accordance with the internal laws of the State of New York without regard to the principles of conflicts of law thereof. Each party hereby irrevocably submits to the non-exclusive jurisdiction of any New York state court sitting in the Borough of Manhattan, the state and federal courts sitting in the City of New York or any federal court sitting in the Borough of Manhattan in the City of New York (collectively, the "New York Courts") in respect of any Proceeding arising out of or relating to this Agreement, and irrevocably accepts for itself and in respect of its property, generally and unconditionally, jurisdiction of the New York Courts. Each
party irrevocably waives to the fullest extent it may effectively do so under applicable law any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in any New York Court and any claim that any such proceeding brought in any New York Court has been brought in an inconvenient forum. Nothing herein shall affect the right of any Holder. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by receiving a copy thereof sent to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law.

Section 5.9. Survival. The representations, warranties, agreements and covenants contained in this Agreement shall survive the Closing and the issuance and conversion of the Shares for a period of three years from the Closing Date, except for claims arising from fraud which shall survive for the applicable statute of limitations.

Section 5.10. Execution. This Agreement may be executed in two or more counterparts, all of which when taken together shall be considered one and the same agreement, and shall become effective when counterparts have been signed by each party and delivered to the other parties, it being understood that all parties need not sign the same counterpart. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid and binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature page were an original thereof.

Section 5.11. Publicity. The Company and JNC shall consult with each other in issuing any press releases or otherwise making public statements with respect to the transactions contemplated hereby and neither JNC nor the Company shall issue any such press release or otherwise make any such public statement without the prior written consent of the other, which consent shall not be unreasonably withheld or delayed, except that no prior consent shall be required if such disclosure is required by law, in which such case the disclosing party shall provide the other party with prior notice of such public statement. Notwithstanding the foregoing, the Company shall not publicly disclose the name of JNC without its prior written consent, except to the extent that JNC’s name (but not the name of any beneficial owner thereof) is required to be disclosed by the Nasdaq Stock Market (or any successor association) or the Commission. The Purchasers other than JNC shall not make any public statement or issue any press release regarding the transactions contemplated hereby without the prior written consent of JNC and the Company. Within 10 Business Days of the Closing Date, the Company shall issue a press release or file with the Commission a Form 8-K or Form 10-QSB publicly announcing the sale of the Shares to the Purchasers.

Section 5.12. Severability. In case any one or more of the provisions of this Agreement shall be invalid or unenforceable in any respect, the validity and enforceability of the remaining terms and provisions of this
Agreement shall not in any way be affected or impaired thereby and the parties will attempt to agree upon a valid and enforceable provision which shall be a reasonable substitute therefor, and upon so agreeing, shall incorporate such substitute provision in this Agreement.

Section 5.13. Remedies. Each of the parties to this Agreement acknowledges and agrees that the other parties would be damaged irreparably in the event any of the provisions of this Agreement are not performed in accordance with their specific terms or otherwise are breached. Accordingly, each of the parties hereto agrees that the other parties shall be entitled to an injunction or injunctions to prevent breaches of the provisions of this Agreement and to enforce specifically this Agreement and the terms and provisions of this Agreement in any action instituted in any court of the United States of America or any state thereof having jurisdiction over the parties to this Agreement and the matter, in addition to any other remedy to which they may be entitled, at law or in equity.

IN WITNESS WHEREOF, the parties hereto have caused this Convertible Preferred Stock Purchase Agreement to be duly executed as of the date first indicated above.

The Company:
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PALATIN TECHNOLOGIES, INC.

By:_____________________________
Name: Edward J. Quilty
Title: Chairman and Chief Executive Officer

The Purchasers:
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JNC OPPORTUNITY FUND LTD.

By:_____________________________
REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made and entered into as of April 28, 1998, among Palatin Technologies, Inc., a Delaware corporation (the "Company"), and the parties who have executed the signature pages attached hereto and whose names appear on Schedule 1 (each such signatory, a "Purchaser" and all such signatories, collectively, the "Purchasers").

This Agreement is made pursuant to the Convertible Preferred Stock Purchase Agreement, dated as of the date hereof among the Company and the Purchasers (the "Purchase Agreement").

The Company and the Purchasers hereby agree as follows:

1. Definitions

Capitalized terms used and not otherwise defined herein that are defined in the Purchase Agreement shall have the meanings given such terms in
As used in this Agreement, the following terms shall have the following meanings:

"Advice" shall have meaning set forth in Section 3(o).

"Affiliate" means, with respect to any Person, any other Person that directly or indirectly controls or is controlled by or under common control with such Person. For the purposes of this definition, "control," when used with respect to any Person, means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of such Person, whether through the ownership of voting securities, by contract or otherwise; and the terms of "affiliated," "controlling" and "controlled" have meanings correlative to the foregoing.

"Business Day" means any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the state of New York generally are authorized or required by law or other government actions to close.

"Certificate of Designation" shall have the meaning set forth in the Purchase Agreement.

"Closing Date" shall have the meaning set forth in the Purchase Agreement.

"Commission" means the Securities and Exchange Commission.

"Common Stock" means the Company's common stock, par value $.01 per share.

"Effectiveness Date" means the 120th day following the Closing Date.

"Effectiveness Period" shall have the meaning set forth in Section 2(a).

"Event" shall have the meaning set forth in Section 6(e).

"Event Date" shall have the meaning set forth in Section 6(e).


"Filing Date" means the 45th day following the Closing Date.

"Initial Reduced Conversion Price Notice" shall have the meaning set forth in the Certificate of Designation.

"Holder" or "Holders" means the holder or holders, as the case
may be, from time to time, of Registrable Securities.

"Indemnified Party" shall have the meaning set forth in Section 5(c).

"Indemnifying Party" shall have the meaning set forth in Section 5(c).

"Losses" shall have the meaning set forth in Section 5(a).

"New York Courts" shall have the meaning set forth in Section 7(j).

"Original Issue Date" shall have the meaning set forth in the Certificate of Designation.

"Person" means an individual or a corporation, partnership, trust, incorporated or unincorporated association, joint venture, limited liability company, joint stock company, government (or an agency or political subdivision thereof) or other entity of any kind.

"Preferred Stock" means Company's Series B Convertible Preferred Stock, $.01 par value, issued to the Purchasers pursuant to the Purchase Agreement.

"Proceeding" means an action, claim, suit, investigation or proceeding (including, without limitation, an investigation or partial proceeding, such as a deposition), whether commenced or threatened.

"Prospectus" means the prospectus included in the Registration Statement (including, without limitation, a prospectus that includes any information previously omitted from a prospectus filed as part of an effective registration statement in reliance upon Rule 430A promulgated under the Securities Act), as amended or supplemented by any prospectus supplement, with respect to the terms of the offering of any portion of the Registrable Securities covered by the Registration Statement, and all other amendments and supplements to the Prospectus, including post-effective amendments, and all material incorporated by reference or deemed to be incorporated by reference in such Prospectus.

"Registrable Securities" means the shares of Common Stock issuable upon conversion in full of the Preferred Stock; provided, however that in order to account for the fact that the number of shares of Common Stock that are issuable upon such conversion may fluctuate between the date hereof and the Effective Date due to changes in the market price of the Common Stock during such time, Registrable Securities shall be deemed to include not less than 175% of the number of shares of Common Stock into which the Preferred Stock is convertible, assuming such conversion occurred on the Closing Date, and the initial Registration Statement shall cover at least such number of shares. The
Company shall be required to file additional Registration Statements to the extent the actual number of shares of Common Stock into which shares of Preferred Stock are convertible exceeds the number of shares of Common Stock initially registered in accordance with the immediately prior sentence, and the filing of such additional Registration Statements shall occur no later than 10 Business Days after notice of the requirement thereof, which the Holders may give at such time when the number of shares of Common Stock as are issuable upon conversion of Preferred Stock exceeds 85% of the number of shares registered.

"Registration Statement" means the registration statement contemplated by Section 2(a) (covering such number of Registrable Securities and any additional Registration Statements contemplated in the definition of Registrable Securities), including (in each case) the Prospectus, amendments and supplements to such registration statement or Prospectus, including pre- and post-effective amendments, all exhibits thereto, and all material incorporated by reference or deemed to be incorporated by reference in such registration statement.

"Rule 158" means Rule 158 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Rule 415" means Rule 415 promulgated by the Commission pursuant to the Securities Act, as such Rule may be amended from time to time, or any similar rule or regulation hereafter adopted by the Commission having substantially the same effect as such Rule.

"Securities Act" means the Securities Act of 1933, as amended.

"Special Counsel" means one law firm acting as counsel to the Holders, for which the Holders will be reimbursed by the Company pursuant to Section 4.

"Stated Value" shall mean $100.

"Trading Day" means (a) a day on which the Common Stock is traded on the Nasdaq National Market or Nasdaq SmallCap Market or other stock exchange or market on which the Common Stock has been listed, or (b) if the Common Stock is not listed on the Nasdaq SmallCap Market or any stock exchange or market, a day on which the Common Stock is traded in the over-the-counter market, as reported by the OTC Bulletin Board, or (c) if the Common Stock is not quoted on the OTC Bulletin Board, a day on which the Common Stock is quoted in the over-the-counter market as reported by the National Quotation Bureau Incorporated (or any similar organization or agency succeeding its functions of reporting prices); provided, however, that in the event that the Common Stock is not listed or quoted as set forth in (a), (b) and (c) hereof, then Trading Day shall mean any day except Saturday, Sunday and any day which shall be a legal holiday or a day on which banking institutions in the State of New York are
authorized or required by law or other government action to close.

"Underwritten Registration or Underwritten Offering" means a registration in connection with which securities of the Company are sold to an underwriter for reoffering to the public pursuant to an effective registration statement.

2. Shelf Registration

(a) On or prior to the Filing Date, the Company shall prepare and file with the Commission a "Shelf" Registration Statement covering all Registrable Securities for an offering to be made on a continuous basis pursuant to Rule 415 in accordance, among other things, with the methods of distribution thereof as specified by the Holders. The Registration Statement shall be on Form S-3 (or, if the Company is not permitted to register the resale of the Registrable Securities on Form S-3, the Registration Statement shall be on such other appropriate form in accordance herewith as the Holders may consent). The Registration Statement shall state, to the extent permitted by Rule 416 under the Securities Act, that it also covers such indeterminate number of shares of Common Stock as may be required to effect conversion of the Preferred Stock to prevent dilution resulting from stock splits, stock dividends or similar events, or by reason of changes in the Conversion Price in accordance with the terms of the Certificate of Designation (as defined in the Purchase Agreement). The Company shall use its best efforts to cause the Registration Statement to be declared effective under the Securities Act as promptly as possible after the filing thereof, but in any event prior to the Effectiveness Date, and shall use its best efforts to keep such Registration Statement continuously effective under the Securities Act until the date which is two years after the date that such Registration Statement is declared effective by the Commission or such earlier date when all Registrable Securities covered by such Registration Statement have been sold or may be sold without volume restrictions pursuant to Rule 144(k) promulgated under the Securities Act, as determined by the counsel to the Company pursuant to a written opinion letter to such effect addressed and acceptable to the Company’s transfer agent (the “Effectiveness Period”); provided, however, that the Company shall not be deemed to have used its best efforts to keep the Registration Statement effective during the Effectiveness Period if it voluntarily takes any action that would result in the Holders not being able to sell the Registrable Securities covered by such Registration Statement during the Effectiveness Period, unless such action is required under applicable law or the Company has filed a post-effective amendment to the Registration Statement and the Commission has not declared it effective.

(b) If the Holders of a majority of the Registrable Securities so elect, an offering of Registrable Securities pursuant to the Registration Statement may be effected in the form of an Underwritten Offering. In such event, and if the managing underwriters advise the Company and such Holders in writing that in their opinion the amount of Registrable Securities proposed to
be sold in such Underwritten Offering exceeds the amount of Registrable Securities which can be sold in such Underwritten Offering, there shall be included in such Underwritten Offering the amount of such Registrable Securities which in the opinion of such managing underwriters can be sold, and such amount shall be allocated pro rata among the Holders proposing to sell Registrable Securities in such Underwritten Offering.

(c) If any of the Registrable Securities are to be sold in an Underwritten Offering, the investment banker in interest that will administer the offering will be selected by the Holders of a majority of the Registrable Securities included in such offering upon consultation with the Company. No Holder may participate in any Underwritten Offering hereunder unless such Person (i) agrees to sell its Registrable Securities on the basis provided in any underwriting agreements approved by the Persons entitled hereunder to approve such arrangements, and (ii) completes and executes all questionnaires, powers of attorney, indemnities, underwriting agreements and other documents required under the terms of such arrangements.

3. Registration Procedures

In connection with the Company's registration obligations hereunder, the Company shall:

(a) Prepare and file with the Commission on or prior to the Filing Date, a Registration Statement (and any additional Registration Statements as may be required) in accordance with Section 2(a), and cause the Registration Statement to become effective and remain effective as provided herein; provided, however, that not less than five (5) Business Days prior to the filing of the Registration Statement or any related Prospectus or any amendment or supplement thereto (including any document that would be incorporated or deemed to be incorporated therein by reference, and including the initial filing of such Registration Statement), the Company shall (i) furnish to the Holders, their Special Counsel and any managing underwriters, copies of all such documents proposed to be filed in the form proposed to be filed, which documents (other than those incorporated or deemed to be incorporated by reference) will be subject to the review of such Holders, their Special Counsel and such managing underwriters, and (ii) cause its officers and directors, counsel and independent certified public accountants to respond to such inquiries as shall be necessary, in the opinion of respective counsel to such Holders and such underwriters, to conduct a reasonable investigation within the meaning of the Securities Act. The Company shall not file the Registration Statement or any such Prospectus or any amendments or supplements thereto to which the Holders of a majority of the Registrable Securities, their Special Counsel, or any managing underwriters, shall reasonably object on a timely basis.

(b) (i) Prepare and file with the Commission such amendments, including post-effective amendments, to the Registration Statement as may be
necessary to keep the Registration Statement continuously effective as to the applicable Registrable Securities for the Effectiveness Period and prepare and file with the Commission such additional Registration Statements in order to register for resale under the Securities Act all of the Registrable Securities; (ii) cause the related Prospectus to be amended or supplemented by any required Prospectus supplement, and as so supplemented or amended to be filed pursuant to Rule 424 (or any similar provisions then in force) promulgated under the Securities Act; (iii) respond as promptly as practicable to any comments received from the Commission with respect to the Registration Statement or any amendment thereto and promptly provide the Holders true and complete copies of all correspondence from and to the Commission relating to the Registration Statement; and (iv) comply with the provisions of the Securities Act and the Exchange Act with respect to the disposition of all Registrable Securities covered by the Registration Statement during the applicable period in accordance with the intended methods of disposition by the Holders thereof set forth in the Registration Statement as so amended or in such Prospectus as so supplemented.

(c) Notify the Holders of Registrable Securities to be sold, their Special Counsel and any managing underwriters immediately (and, in the case of (i)(A) below, not less than five (5) days prior to such filing) and (if requested by any such Person) and confirm such notice in writing no later than one (1) Business Day following the day (i)(A) when a Prospectus or any Prospectus supplement or post-effective amendment to the Registration Statement is proposed to be filed; (B) when the Commission notifies the Company whether there will be a "review" of such Registration Statement and whenever the Commission comments in writing on such Registration Statement (the Company shall provide true and complete copies thereof and all written responses thereto to each of the Holders); and (C) when the Registration Statement or any post-effective amendment has become effective; (ii) of any request by the Commission or any other Federal or state governmental authority for amendments or supplements to the Registration Statement or Prospectus or for additional information; (iii) of the issuance by the Commission of any stop order suspending the effectiveness of the Registration Statement covering any or all of the Registrable Securities or the initiation of any Proceedings for that purpose; (iv) if at any time any of the representations and warranties of the Company contained in any agreement (including any underwriting agreement) contemplated hereby cease to be true and correct in all material respects; (v) of the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction, or the initiation or threatening of any Proceeding for such purpose; and (vi) of the occurrence of any event that makes any statement made in the Registration Statement or Prospectus or any document incorporated or deemed to be incorporated therein by reference untrue in any material respect or that requires any revisions to the Registration Statement, Prospectus or other documents so that, in the case of the Registration Statement or the Prospectus, as the case may be, it will not contain any untrue statement of a material fact or omit to state any material fact required to be stated therein or necessary to make the statements therein, in light of the
circumstances under which they were made, not misleading.

(d) Use its best efforts to avoid the issuance of, or, if issued, obtain the withdrawal of (i) any order suspending the effectiveness of the Registration Statement, or (ii) any suspension of the qualification (or exemption from qualification) of any of the Registrable Securities for sale in any jurisdiction, at the earliest practicable moment.

(e) If requested by any managing underwriter or the Holders of a majority in interest of the Registrable Securities to be sold in connection with an Underwritten Offering, (i) promptly incorporate in a Prospectus supplement or post-effective amendment to the Registration Statement such information as such managing underwriters and such Holders reasonably agree should be included therein, and (ii) make all required filings of such Prospectus supplement or such post-effective amendment as soon as practicable after the Company has received notification of the matters to be incorporated in such Prospectus supplement or post-effective amendment; provided, however, that the Company shall not be required to take any action pursuant to this Section 3(e) that would, in the opinion of counsel for the Company, violate applicable law or be materially detrimental to the business prospects of the Company.

(f) Furnish to each Holder, their Special Counsel and any managing underwriters, without charge, at least one conformed copy of each Registration Statement and each amendment thereto, including financial statements and schedules, all documents incorporated or deemed to be incorporated therein by reference, and all exhibits to the extent reasonably requested by such Person (including those previously furnished or incorporated by reference) promptly after the filing of such documents with the Commission.

(g) Promptly deliver to each Holder, their Special Counsel, and any underwriters, without charge, as many copies of the Prospectus or Prospectuses (including each form of prospectus) and each amendment or supplement thereto as such Persons may reasonably request; and the Company hereby consents to the use of such Prospectus and each amendment or supplement thereto by each of the selling Holders and any underwriters in connection with the offering and sale of the Registrable Securities covered by such Prospectus and any amendment or supplement thereto.

(h) Qualify or register (or procure any necessary exemptions from such qualification or registration) the Registrable Securities for offer and sale under the securities or Blue Sky laws of such jurisdictions as any Holder or underwriter requests in writing, and keep each such registration or qualification (or exemption therefrom) effective during the Effectiveness Period and do any and all other acts or things necessary or advisable to enable the disposition in such jurisdictions of the Registrable Securities covered by a Registration Statement; provided, however, that the Company shall not be required to qualify generally to do business in any jurisdiction where it is not then so qualified or to take any action that would subject it to general service
of process in any such jurisdiction where it is not then so subject or subject the Company to any material tax in any such jurisdiction where it is not then so subject.

(i) Cooperate with the Holders and any managing underwriters to facilitate the timely preparation and delivery of certificates representing Registrable Securities to be sold pursuant to a Registration Statement, which certificates shall be free of all restrictive legends, and to enable such Registrable Securities to be in such denominations and registered in such names as any such managing underwriters or Holders may request at least three (3) Business Days prior to any sale of Registrable Securities.

(j) Upon the occurrence of any event contemplated by Section 3(c)(vi), as promptly as practicable, prepare a supplement or amendment, including a post-effective amendment, to the Registration Statement or a supplement to the related Prospectus or any document incorporated or deemed to be incorporated therein by reference, and file any other required document so that, as thereafter delivered, neither the Registration Statement nor such Prospectus will contain an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein, in light of the circumstances under which they were made, not misleading.

(k) Use its best efforts to cause all Registrable Securities relating to such Registration Statement to be listed on the Nasdaq SmallCap Market and any other securities exchange, quotation system, market or over-the-counter bulletin board, if any, on which similar securities issued by the Company are then listed as and when required pursuant to the Purchase Agreement.

(l) In the case of an Underwritten Offering, enter into such agreements (including an underwriting agreement in form, scope and substance as is customary in Underwritten Offerings) and take all such other actions in connection therewith (including those reasonably requested by any managing underwriters and the Holders of a majority of the Registrable Securities being sold) in order to expedite or facilitate the disposition of such Registrable Securities, and whether or not an underwriting agreement is entered into, (i) make such representations and warranties to such Holders and such underwriters as are customarily made by issuers to underwriters in underwritten public offerings, and confirm the same if and when requested; (ii) obtain and deliver copies thereof to each Holder and the managing underwriters, if any, of opinions of counsel to the Company and updates thereof addressed to each selling Holder and each such underwriter, in form, scope and substance reasonably satisfactory to any such managing underwriters and Special Counsel to the selling Holders covering the matters customarily covered in opinions requested in Underwritten Offerings and such other matters as may be reasonably requested by such Special Counsel and underwriters; (iii) immediately prior to the effectiveness of the Registration Statement or at the time of delivery of any Registrable Securities
sold pursuant thereto (at the option of the underwriters), obtain and deliver copies to the Holders and the managing underwriters, if any, of "cold comfort" letters and updates thereof from the independent certified public accountants of the Company (and, if necessary, any other independent certified public accountants of any subsidiary of the Company or of any business acquired by the Company for which financial statements and financial data is, or is required to be, included in the Registration Statement), addressed to each Person and in such form and substance as are customary in connection with Underwritten Offerings; (iv) if an underwriting agreement is entered into, the same shall contain indemnification provisions and procedures no less favorable to the selling Holders and the underwriters, if any, than those set forth in Section 7 (or such other provisions and procedures acceptable to the managing underwriters, if any, and holders of a majority of Registrable Securities participating in such Underwritten Offering; and (v) deliver such documents and certificates as may be reasonably requested by the Holders of a majority of the Registrable Securities being sold, their Special Counsel and any managing underwriters to evidence the continued validity of the representations and warranties made pursuant to clause 3(l)(i) above and to evidence compliance with any customary conditions contained in the underwriting agreement or other agreement entered into by the Company.

(m) Make available for inspection by the selling Holders, a representative of such Holders, an underwriter participating in any disposition of Registrable Securities, and an attorney or accountant retained by such selling Holders or underwriters, at the offices where normally kept, during reasonable business hours, all financial and other records, pertinent corporate documents and properties of the Company and its subsidiaries, and cause the officers, directors, agents and employees of the Company and its subsidiaries to supply all information in each case requested by any such Holder, representative, underwriter, attorney or accountant in connection with the Registration Statement; provided, however, that any information that is determined in good faith by the Company in writing to be of a confidential nature at the time of delivery of such information shall be kept confidential by such Persons, unless (i) disclosure of such information is required by court or administrative order or is necessary to respond to inquiries of regulatory authorities; (ii) disclosure of such information, in the opinion of counsel to such Person, is required by law; (iii) such information becomes generally available to the public other than as a result of a disclosure or failure to safeguard by such Person; or (iv) such information becomes available to such Person from a source other than the Company and such source is not known by such Person to be bound by a confidentiality agreement with the Company.

(n) Comply with all applicable rules and regulations of the Commission and make generally available to its security holders earning statements satisfying the provisions of Section 11(a) of the Securities Act and

Rule 158 not later than 45 days after the end of any 12-month period (or 90 days after the end of any 12-month period if such period is a fiscal year) (i) commencing at the end of any fiscal quarter in which Registrable Securities are
sold to underwriters in a firm commitment or best efforts Underwritten Offering and (ii) if not sold to underwriters in such an offering, commencing on the first day of the first fiscal quarter of the Company after the effective date of the Registration Statement, which statement shall cover said 12-month period, or end shorter periods as is consistent with the requirements of Rule 158.

(o) The Company may require each selling Holder to furnish to the Company such information regarding the distribution of such Registrable Securities and the beneficial ownership of Common Stock held by such selling Holder as is required by law to be disclosed in the Registration Statement and the Company may exclude from such registration the Registrable Securities of any such Holder who unreasonably fails to furnish such information within a reasonable time after receiving such request.

If the Registration Statement refers to any Holder by name or otherwise as the holder of any securities of the Company, then such Holder shall have the right to require (if such reference to such Holder by name or otherwise is not required by the Securities Act or any similar Federal statute then in force) the deletion of the reference to such Holder in any amendment or supplement to the Registration Statement filed or prepared subsequent to the time that such reference ceases to be required.

Each Holder agrees by its acquisition of the Registrable Securities that (i) it will not offer or sell any Registrable Securities under the Registration Statement until it has received copies of the Prospectus as then amended or supplemented as contemplated in Section 3(g) and notice from the Company that such Registration Statement and any post-effective amendments thereto have become effective as contemplated by Section 3(c), and (ii) it will comply with the prospectus delivery requirements of the Securities Act as applicable to it in connection with sales of Registrable Securities pursuant to the Registration Statement.

Each Holder agrees by its acquisition of such Registrable Securities that, upon receipt of a notice from the Company of the occurrence of any event of the kind described in Section 3(c)(ii), 3(c)(iii), 3(c)(iv), 3(c)(v) or 3(c)(vi), such Holder will forthwith discontinue disposition of such Registrable Securities until such Holder's receipt of the copies of the supplemented Prospectus and/or amended Registration Statement contemplated by Section 3(j), or until it is advised in writing (the “Advice”) by the Company that the use of the applicable Prospectus may be resumed, and, in either case, has received copies of any additional or supplemental filings that are incorporated or deemed to be incorporated by reference in such Prospectus or Registration Statement.

4. Registration Expenses

(a) All fees and expenses incident to the performance of or compliance with this Agreement by the Company shall, except as and to the extent specified in Section 4(b), be borne by the Company whether or not pursuant to an Underwritten Offering and whether or not the Registration Statement is filed or becomes effective and whether or not any Registrable Securities are sold.
pursuant to the Registration Statement. The fees and expenses referred to in the foregoing sentence shall include, without limitation, (i) all registration and filing fees (including, without limitation, fees and expenses (A) with respect to filings required to be made with Nasdaq SmallCap Market and each other securities exchange or market on which Registrable Securities are required hereunder to be listed, and (B) in compliance with state securities or Blue Sky laws (including, without limitation, fees and disbursements of counsel for the underwriters or Holders in connection with Blue Sky qualifications of the Registrable Securities and determination of the eligibility of the Registrable Securities for investment under the laws of such jurisdictions as the managing underwriters, if any, or the Holders of a majority of Registrable Securities may designate)), (ii) printing expenses (including, without limitation, expenses of printing certificates for Registrable Securities and of printing prospectuses if the printing of prospectuses is requested by the managing underwriters, if any, or by the holders of a majority of the Registrable Securities included in the Registration Statement), (iii) messenger, telephone and delivery expenses, (iv) fees and disbursements of counsel for the Company and Special Counsel for the Holders, in the case of the Special Counsel, to a maximum amount of $5,000, (v) Securities Act liability insurance, if the Company so desires such insurance, and (vi) fees and expenses of all other Persons retained by the Company in connection with the consummation of the transactions contemplated by this Agreement. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement. In addition, the Company shall be responsible for all of its internal expenses incurred in connection with the consummation of the transactions contemplated by this Agreement (including, without limitation, all salaries and expenses of its officers and employees performing legal or accounting duties), the expense of any annual audit, the fees and expenses incurred in connection with the listing of the Registrable Securities on any securities exchange as required hereunder.

(b) If the Holders require an Underwritten Offering pursuant to the terms hereof, the Company shall be responsible for all costs, fees and expenses in connection therewith, except for the fees and disbursements of the Underwriters (including any underwriting commissions and discounts) and their legal counsel and accountants. By way of illustration which is not intended to diminish from the provisions of Section 4(a), the Holders shall not be responsible for, and the Company shall be required to pay the fees or disbursements incurred by the Company (including by its legal counsel and accountants) in connection with, the preparation and filing of a Registration Statement and related Prospectus for such offering, the maintenance of such Registration Statement in accordance with the terms hereof, the listing of the Registrable Securities in accordance with the requirements hereof, and printing expenses incurred to comply with the requirements hereof. Notwithstanding anything herein to the contrary, if (i) prior to the Effectiveness Date the Holders require the Company to register their Registrable Securities in an
Underwritten Offering (other than an Underwritten Offering that the Company has otherwise undertaken) or (ii) after the Effectiveness Date, when there is an effective Registration Statement that names the Holders as "selling stockholders" therein and under which the Holders are permitted to sell Registrable Securities, and the Holders require the Company to register their Registrable Securities in an Underwritten Offering (other than an Underwritten Offering that the Company has otherwise undertaken); then, in the case of (i) or (ii) above, in addition to the cost and expenses that the Holders are required to pay under this Section, the Holders shall pay all legal, accounting and other fees and expenses reasonably incurred by the Company in connection with the preparation and filing of such Underwritten Offering and cooperation with requests of the Managing Underwriters.

5. Indemnification

(a) Indemnification by the Company. The Company shall, notwithstanding any termination of this Agreement, indemnify and hold harmless each Holder, the officers, directors, agents (including any underwriters retained by such Holder in connection with the offer and sale of Registrable Securities), brokers (including brokers who offer and sell Registrable Securities as principal as a result of a pledge or any failure to perform under a margin call of Common Stock), investment advisors and employees of each of them, each Person who controls any such Holder (within the meaning of Section 15 of the Securities Act or Section 20 of the Exchange Act) and the officers, directors, agents and employees of each such controlling Person, to the fullest extent permitted by applicable law, from and against any and all losses, claims, damages, liabilities, settlements, judgments, costs (including, without limitation, costs of preparation and attorneys' fees) and expenses (collectively, "Losses"), as incurred, arising out of or relating to any untrue or alleged untrue statement of a material fact contained in the Registration Statement, any Prospectus or any form of prospectus or in any amendment or supplement thereto or in any preliminary prospectus, or arising out of or relating to any omission or alleged omission of a material fact required to be stated therein or necessary to make the statements therein (in the case of any Prospectus or form of prospectus or supplement thereto, in light of the circumstances under which they were made) not misleading, except to the extent, but only to the extent, that such untrue statements or omissions are based solely upon information regarding such Holder furnished in writing to the Company by or on behalf of such Holder expressly for use therein, or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus or in any amendment or supplement thereto. The Company shall notify the Holders promptly of the institution, threat or assertion of any Proceeding of which the Company is aware in connection with the transactions contemplated by this Agreement.

(b) Indemnification by Holders. Each Holder shall, severally and not jointly, indemnify and hold harmless the Company, its directors, officers, agents and employees, each Person who controls the Company (within the meaning of Section 15 of the Securities Act and Section 20
of the Exchange Act), and the directors, officers, agents or employees of such controlling Persons, to the fullest extent permitted by applicable law, from and against all Losses (as determined by a court of competent jurisdiction in a final judgment not subject to appeal or review) arising solely out of or based solely upon any untrue statement of a material fact contained in the Registration Statement, any Prospectus, or any form of prospectus, or arising solely out of or based solely upon any omission of a material fact required to be stated therein or necessary to make the statements therein not misleading to the extent, but only to the extent, that such untrue statement or omission is contained in any information so furnished in writing by such Holder to the Company specifically for inclusion in the Registration Statement or such Prospectus or to the extent that such information relates to such Holder or such Holder's proposed method of distribution of Registrable Securities and was reviewed and expressly approved in writing by such Holder expressly for use in the Registration Statement, such Prospectus or such form of Prospectus. In no event shall the liability of any selling Holder hereunder be greater in amount than the dollar amount of the net proceeds received by such Holder upon the sale of the Registrable Securities giving rise to such indemnification obligation.

(c) Conduct of Indemnification Proceedings. If any Proceeding shall be brought or asserted against any Person entitled to indemnity hereunder (an "Indemnified Party"), such Indemnified Party promptly shall notify the Person from whom indemnity is sought (the "Indemnifying Party") in writing, and the Indemnifying Party shall assume the defense thereof, including the employment of counsel reasonably satisfactory to the Indemnified Party and the payment of all fees and expenses incurred in connection with defense thereof; provided, that the failure of any Indemnified Party to give such notice shall not relieve the Indemnifying Party of its obligations or liabilities pursuant to this Agreement, except (and only) to the extent that it shall be finally determined by a court of competent jurisdiction (which determination is not subject to appeal or further review) that such failure shall have proximately and materially adversely prejudiced the Indemnifying Party.

An Indemnified Party shall have the right to employ separate counsel in any such Proceeding and to participate in the defense thereof, but the fees and expenses of such counsel shall be at the expense of such Indemnified Party or Parties unless: (1) the Indemnifying Party has agreed in writing to pay such fees and expenses; or (2) the Indemnifying Party shall have failed promptly to assume the defense of such Proceeding and to employ counsel reasonably satisfactory to such Indemnified Party in any such Proceeding; or (3) the named parties to any such Proceeding (including any impleaded parties) include both such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall have been advised by counsel that a conflict of interest is likely to exist if the same counsel were to represent such Indemnified Party and the Indemnifying Party, and such Indemnified Party shall not have the right to assume the defense thereof and such counsel shall be at the expense of the Indemnifying Party. The Indemnifying Party shall not be liable for any settlement of any such Proceeding effected without its written consent, which consent shall not be unreasonably withheld. No Indemnifying Party shall, without the prior written consent of the Indemnified Party, effect any settlement of any pending Proceeding in respect of which any Indemnified Party is a party, unless
such settlement includes an unconditional release of such Indemnified Party from all liability on claims that are the subject matter of such Proceeding.

All fees and expenses of the Indemnified Party (including reasonable fees and expenses to the extent incurred in connection with investigating or preparing to defend such Proceeding in a manner not inconsistent with this Section) shall be paid to the Indemnified Party, as incurred, within 10 Business Days of written notice thereof to the Indemnifying Party (regardless of whether it is ultimately determined that an Indemnified Party is not entitled to indemnification hereunder; provided, that the Indemnifying Party may require such Indemnified Party to undertake to reimburse all such fees and expenses to the extent it is finally judicially determined that such Indemnified Party is not entitled to indemnification hereunder).

(d) Contribution. If a claim for indemnification under Section 5(a) or 5(b) is unavailable to an Indemnified Party because of a failure or refusal of a governmental authority to enforce such indemnification in accordance with its terms (by reason of public policy or otherwise), then each Indemnifying Party, in lieu of indemnifying such Indemnified Party, shall contribute to the amount paid or payable by such Indemnified Party as a result of such Losses, in such proportion as is appropriate to reflect the relative fault of the Indemnifying Party and Indemnified Party in connection with the actions, statements or omissions that resulted in such Losses as well as any other relevant equitable considerations. The relative fault of such Indemnifying Party and Indemnified Party shall be determined by reference to, among other things, whether any action in question, including any untrue or alleged untrue statement of a material fact or omission or alleged omission of a material fact, has been taken or made by, or relates to information supplied by, such Indemnifying Party or Indemnified Party, and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such action, statement or omission. The amount paid or payable by a party as a result of any Losses shall be deemed to include, subject to the limitations set forth in Section 5(c), any reasonable attorneys' or other reasonable fees or expenses incurred by such party in connection with any Proceeding to the extent such party would have been indemnified for such fees or expenses if the indemnification provided for in this Section was available to such party in accordance with its terms.

The parties hereto agree that it would not be just and equitable if contribution pursuant to this Section 5(d) were determined by pro rata allocation or by any other method of allocation that does not take into account the equitable considerations referred to in the immediately preceding paragraph. Notwithstanding the provisions of this Section 5(d), no Purchaser shall be required to contribute, in the aggregate, any amount in excess of the amount by which the proceeds actually received by such Purchaser from the sale of the Registrable Securities subject to the Proceeding exceeds the amount of any damages that such Purchaser has otherwise been required to pay by reason of such untrue or alleged untrue statement or omission or alleged omission. No Person guilty of fraudulent misrepresentation (within the meaning of Section 11(f) of
(a) Remedies. In the event of a breach by the Company or by a Holder, of any of their obligations under this Agreement, each Holder or the Company, as the case may be, in addition to being entitled to exercise all rights granted by law and under this Agreement, including recovery of damages, will be entitled to specific performance of its rights under this Agreement. The Company and each Holder agree that monetary damages would not provide adequate compensation for any losses incurred by reason of a breach by it of any of the provisions of this Agreement and hereby further agrees that, in the event of any action for specific performance in respect of such breach, it shall waive the defense that a remedy at law would be adequate.

(b) No Inconsistent Agreements. Except as and to the extent specifically set forth in Schedule 6(b) attached hereto, neither the Company nor any of its subsidiaries has, as of the date hereof, nor shall the Company or any of its subsidiaries, on or after the date of this Agreement, enter into any agreement with respect to its securities that is inconsistent with the rights granted to the Holders in this Agreement or otherwise conflicts with the provisions hereof. Except as and to the extent specifically set forth in Schedule 6(b) attached hereto, neither the Company nor any of its subsidiaries has previously entered into any agreement granting any registration rights with respect to any of its securities to any Person. Without limiting the generality of the foregoing, without the written consent of the Holders of a majority of the then outstanding Registrable Securities, the Company shall not grant to any Person the right to request the Company to register any securities of the Company under the Securities Act unless the rights so granted are subject in all respects to the prior rights in full of the Holders set forth herein, and are not otherwise in conflict or inconsistent with the provisions of this Agreement.

(c) No Piggyback on Registrations. Except as and to the extent specifically set forth in Schedule 6(b) attached hereto, neither the Company nor any of its security holders (other than the Holders in such capacity pursuant hereto) may include securities of the Company in the Registration Statement other than the Registrable Securities, and the Company shall not, after the date hereof, enter into any agreement providing any such right to any of its security holders.

(d) Piggy-Back Registrations. If at any time during the Effectiveness Period there is not an effective Registration Statement covering all of the Registrable Securities and the Company shall determine to prepare and
file with the Commission a registration statement relating to an offering for its own account or the account of others under the Securities Act of any of its equity securities, other than on Form S-4 or Form S-8 (each as promulgated under the Securities Act) or their then equivalents relating to equity securities to be issued solely in connection with any acquisition of any entity or business or equity securities issuable in connection with stock option or other employee benefit plans, then the Company shall send to each holder of Registrable Securities written notice of such determination and, if within twenty (20) days after receipt of such notice, any such holder shall so request in writing, the Company shall include in such registration statement all or any part of the Registrable Securities such holder requests to be registered. No right to registration of Registrable Securities under this Section shall be construed to limit any registration otherwise required hereunder.

(e) Liquidated Damages. (i) If the Registration Statement is not filed on or prior to the Filing Date (for purposes hereof, in the event the Company files the Registration Statement without complying with the provisions of Section 3(a) hereof, such filing shall not be deemed to have occurred), or (ii) if the Company fails to file with the Commission a request for acceleration in accordance with Rule 12d1-2 promulgated under the Exchange Act within five (5) days of the date that the Company is notified (orally or in writing, whichever is earlier) by the Commission that the Registration Statement will not be "reviewed," or not be subject to further review, or (iii) if the Registration Statement is not declared effective by the Commission on or prior to the 120th day after the Original Issue Date, or (iv) if the Registration Statement is filed with and declared effective by the Commission but thereafter ceases to be effective as to all Registrable Securities at any time prior to the expiration of the Effectiveness Period, without being succeeded within 10 Trading Days by a subsequent Registration Statement filed with and declared effective by the Commission, or (v) if an amendment to the Registration Statement is not filed by the Company with the Commission within ten (10) days of the Commission's notifying the Company that such amendment is required in order for the Registration Statement to be declared effective, (any such failure or breach being referred to as an "Event," and for purposes of clauses (i) and (iii) the date on which such Event occurs, or for purposes of clause (ii) the date on which such five (5) day period is exceeded, or for purposes of clauses (iv) and (v) the date which such 10 Trading Day-period is exceeded, being referred to as "Event Date"), then each such Purchaser may require the Company to pay to it in cash, 1.5% of the aggregate Stated Value of all shares of Preferred Stock then held by it, as liquidated damages and not as a penalty. In addition, on each monthly anniversary of the Event Date until the Event is cured, each such Purchaser may require the Company to pay to it in cash, 2.5% of the aggregate Stated Value of all shares of Preferred Stock then held by it, as liquidated damages and not as a penalty. A Holder shall not be entitled to liquidated damages for an Event for any month for which it has elected to deliver to the Company an Initial Reduced Conversion Price Notice pursuant Section 5(c)(i) of the Certificate of Designation in respect of such Event. However, a Holder shall be entitled to receive both the benefits of the Initial Reduced Conversion Price
Notice and the liquidated damages contemplated in this paragraph for the same Event, but not both in the same monthly period. The Holders shall have the right to liquidated damages for multiple and/or successive Events. For purposes hereof, shares of Preferred Stock for which a conversion has been requested in accordance with the Certificate of Designation shall be deemed to be outstanding and held by the converting Holder if an Event occurs on or prior to the date that the holder receives shares of Common Stock from the Company in respect thereof.

(f) Amendments and Waivers. The provisions of this Agreement, including the provisions of this sentence, may not be amended, modified or supplemented, and waivers or consents to departures from the provisions hereof may not be given, unless the same shall be in writing and signed by the Company and the Holders of at least a majority of the then outstanding Registrable Securities; provided, however, that, for the purposes of this sentence, Registrable Securities that are owned, directly or indirectly, by the Company, or an Affiliate of the Company are not deemed outstanding. Notwithstanding the foregoing, a waiver or consent to depart from the provisions hereof with respect to a matter that relates exclusively to the rights of Holders and that does not directly or indirectly affect the rights of other Holders may be given by Holders of at least a majority of the Registrable Securities to which such waiver or consent relates; provided, however, that the provisions of this sentence may not be amended, modified, or supplemented except in accordance with the provisions of the immediately preceding sentence.

(g) Notices. Any and all notices or other communications or deliveries required or permitted to be provided hereunder shall be in writing and shall be deemed given and effective on the earliest of (i) the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in this Section prior to 7:00 p.m. (New York City time) on a Business Day, (ii) the Business Day after the date of transmission, if such notice or communication is delivered via facsimile at the facsimile telephone number specified in the Purchase Agreement later than 7:00 p.m. (New York City time) on any date and earlier than 11:59 p.m. (New York City time) on such date, (iii) the Business Day following the date of mailing, if sent by nationally recognized overnight courier service, or (iv) upon actual receipt by the party to whom such notice is required to be given. The address for such notices and communications to any Purchaser shall be as set forth below such Purchaser's name on Schedule 1 and, if to the Company, to the following address:

Palatin Technologies, Inc.
214 Carnegie Center
Princeton, NJ 08540
Facsimile No.: (609) 452-0880
Attn: Edward J. Quilty

Rubin Baum Levin Constant & Friedman
If to any other Person who is then the registered Holder:

To the address of such Holder as it appears in the stock transfer books of the Company

or such other address as may be designated in writing hereafter, in the same manner, by such Person.

(h) Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the successors and permitted assigns of each of the parties and shall inure to the benefit of each Holder. The Company may not assign its rights or obligations hereunder without the prior written consent of each Holder. A Purchaser may assign its respective rights hereunder in the manner and to the Persons as permitted under the Purchase Agreement.

(i) Assignment of Registration Rights. The rights of a Holder hereunder, including the right to have the Company register for resale Registrable Securities in accordance with the terms of this Agreement, shall be automatically assignable by such Holder to any assignee or transferee of all or a portion of the Preferred Stock or Registrable Securities without the consent of the Company if: (i) such Holder agrees in writing with the transferee or assignee to assign such rights, and a copy of such agreement is furnished to the Company within a reasonable time after such assignment, (ii) the Company is, within a reasonable time after such transfer or assignment, furnished with written notice of (a) the name and address of such transferee or assignee, and (b) the securities with respect to such registration rights are being transferred or assigned, (iii) at or before the time the Company receives the written notice contemplated by clause (ii) of this Section, the transferee or assignee agrees in writing with the Company to be bound by all of the provisions of this Agreement, and (iv) such transfer shall have been made in accordance with the applicable requirements of the Purchase Agreement. The rights to assignment shall apply to the Purchaser’s (and to subsequent) successors and assigns.

(j) Counterparts. This Agreement may be executed in any number of counterparts, each of which when so executed shall be deemed to be an original and, all of which taken together shall constitute one and the same Agreement. In the event that any signature is delivered by facsimile transmission, such signature shall create a valid binding obligation of the party executing (or on whose behalf such signature is executed) the same with the same force and effect as if such facsimile signature were the original thereof.
(k) Governing Law; Submission to Jurisdiction. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to principles of conflicts of law. Each party hereby irrevocably submits to the non-exclusive jurisdiction of any New York state court sitting in the Borough of Manhattan, the state and federal courts sitting in the City of New York or any federal court sitting in the Borough of Manhattan in the City of New York (collectively, the "New York Courts") in respect of any Proceeding arising out of or relating to this Agreement, and irrevocably accepts for itself and in respect of its property, generally and unconditionally, jurisdiction of the New York Courts. Each party irrevocably waives to the fullest extent it may effectively do so under applicable law any objection that it may now or hereafter have to the laying of the venue of any such proceeding brought in any New York Court and any claim that any such Proceeding brought in any New York Court has been brought in an inconvenient forum. Nothing herein shall affect the right of any Holder. Each party hereby irrevocably waives personal service of process and consents to process being served in any such suit, action or proceeding by receiving a copy thereof sent to such party at the address in effect for notices to it under this Agreement and agrees that such service shall constitute good and sufficient service of process and notice thereof. Nothing contained herein shall be deemed to limit in any way any right to serve process in any manner permitted by law.

(l) Cumulative Remedies. The remedies provided herein are cumulative and not exclusive of any remedies provided by law.

(m) Severability. If any term, provision, covenant or restriction of this Agreement is held by a court of competent jurisdiction to be invalid, illegal, void or unenforceable, the remainder of the terms, provisions, covenants and restrictions set forth herein shall remain in full force and effect and shall in no way be affected, impaired or invalidated, and the parties hereto shall use their reasonable efforts to find and employ an alternative means to achieve the same or substantially the same result as that contemplated by such term, provision, covenant or restriction. It is hereby stipulated and declared to be the intention of the parties that they would have executed the remaining terms, provisions, covenants and restrictions without including any of such that may be hereafter declared invalid, illegal, void or unenforceable.

(n) Headings. The headings in this Agreement are for convenience of reference only and shall not limit or otherwise affect the meaning hereof.

(o) Shares Held by The Company and its Affiliates. Whenever the consent or approval of Holders of a specified percentage of Registrable Securities is required hereunder, Registrable Securities held by the Company or its Affiliates (other than the Purchasers or transferees or successors or assigns thereof if such Persons are deemed to be Affiliates solely by reason of the holdings of such Registrable Securities) shall not be counted in determining whether such consent or approval was given by the Holders of such
IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the date first written above.

The Company

PALATIN TECHNOLOGIES, INC.

By:_____________________________
   Name: Edward J. Quilty
   Title: Chairman and Chief Executive Officer

The Purchasers

JNC OPPORTUNITY FUND LTD.

By:_____________________________
   Name: 
   Title:

ROBERT LEAF

______________________________
Robert Leaf

JOSEPH AND BARBARA STRASSMAN

______________________________
Joseph Strassman  Barbara Strassman