10QSB
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FORM 10-QSB FOR PERIOD ENDDED 03/31/98

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

FORM 10-QSB

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

For the quarterly period ended March 31, 1998

or

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

For the transition period from ___________ to __________

Commission file number 0-22686

---------------------------------------------
Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

As of May 14, 1998, 3,482,763 shares of the Issuer’s common stock, par value $.01 per share, were outstanding.

Transitional Small Business Disclosure Format: Yes [ ] No [X]
PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

PALTIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Consolidated Balance Sheets
### ASSETS

**Current assets:**
- Cash and cash equivalents, including restricted cash of $185,000  
  $  5,306,812  
  $12,806,717
- Accounts receivable ............................................           --            84,562
- Prepaid expenses and other .....................................        201,682         174,996

**Total current assets .......................................**
  5,508,494  
  13,066,275

**Property and equipment, net ......................................**
  1,671,202         922,096

**Intangibles, net of accumulated amortization of $113,208 and**
  $103,743, respectively .........................................
  76,754          74,494

**-------------   --------------**
  $ 7,256,450    $ 14,062,865

**LIABILITIES AND STOCKHOLDERS' EQUITY**

**Current liabilities:**
- Accounts payable and accrued expenses .......................   $  1,350,522    $  1,789,178
- Current portion of long-term debt ..............................
  989,053         869,549
- Notes payable ..................................................
  80,000

**Total current liabilities ..................................**
  2,339,575       2,738,727

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

**Long-term debt, net of current portion ...........................**
  182,077          939,590

**-------------   --------------**
  3,071,652       4,228,317

**Commitments and contingencies**

**Stockholders' equity:**
- Preferred stock, $.01 par value, 15,000,000 and 2,000,000 shares
  — authorized and 125,428 and 137,780 shares issued as of
  March 31, 1998 and June 30, 1997, respectively ...............          1,254           1,378
- Common stock, $.01 par value, 75,000,000 and 25,000,000 shares
  — authorized and 3,314,509 and 3,020,373 issued as of
  March 31, 1998 and June 30, 1997, respectively ...............         33,145          30,204
- Additional paid in capital ......................................
  24,563,441      23,740,864
- Warrants ........................................................
  573,537         573,537
- Deferred Compensation ...........................................
  952,664         1,078,333
- Deficit accumulated during development stage ....................
  (20,033,915)    (13,433,102)

**-------------   --------------**
  4,184,798      9,834,548

**-------------   --------------**
  $ 7,256,450    $ 14,062,865

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

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PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Consolidated Statements of Operations
(unaudited)
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>$ 267,862</td>
<td>$ 33,967</td>
<td>$ 267,862</td>
<td>$ 3,244,652</td>
<td></td>
</tr>
<tr>
<td>License fees and royalties</td>
<td>350,000</td>
<td>350,000</td>
<td>350,000</td>
<td>684,296</td>
<td></td>
</tr>
<tr>
<td>Product sales</td>
<td>22,184</td>
<td>318,917</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>617,862</td>
<td>33,967</td>
<td>640,946</td>
<td>4,247,865</td>
<td></td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>1,814,572</td>
<td>1,050,400</td>
<td>4,678,421</td>
<td>2,300,669</td>
<td>12,484,812</td>
</tr>
<tr>
<td>General and administrative</td>
<td>646,109</td>
<td>793,370</td>
<td>2,125,718</td>
<td>1,740,125</td>
<td>9,678,562</td>
</tr>
<tr>
<td>Restructuring charge</td>
<td>284,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net intangibles write down</td>
<td>259,334</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>2,460,681</td>
<td>1,843,770</td>
<td>6,804,139</td>
<td>4,040,794</td>
<td>22,706,708</td>
</tr>
<tr>
<td><strong>OTHER INCOME (EXPENSES):</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>78,717</td>
<td>36,330</td>
<td>347,475</td>
<td>159,023</td>
<td>714,864</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(53,937)</td>
<td>(84,927)</td>
<td>(178,116)</td>
<td>(301,200)</td>
<td>(1,595,966)</td>
</tr>
<tr>
<td>Placement agent commissions and</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(168,970)</td>
</tr>
<tr>
<td>Merger costs</td>
<td>17,419</td>
<td>17,419</td>
<td>(525,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>**Total other income (expenses)</td>
<td>24,780</td>
<td>(31,178)</td>
<td>169,359</td>
<td>(124,758)</td>
<td>(1,575,072)</td>
</tr>
<tr>
<td><strong>NET LOSS</strong></td>
<td>(2,435,901)</td>
<td>(1,257,086)</td>
<td>(6,600,813)</td>
<td>(3,525,506)</td>
<td>(20,633,915)</td>
</tr>
<tr>
<td><strong>PREFERRED STOCK DIVIDEND</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(2,888,935)</td>
</tr>
<tr>
<td><strong>NET LOSS ATTRIBUTABLE TO</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>COMMON STOCKHOLDERS</td>
<td>(2,435,901)</td>
<td>(1,257,086)</td>
<td>(6,600,813)</td>
<td>(3,525,506)</td>
<td>(22,922,850)</td>
</tr>
<tr>
<td>Weighted average number of common shares outstanding</td>
<td>3,181,222</td>
<td>11,745,837</td>
<td>3,085,511</td>
<td>11,618,271</td>
<td>731,995</td>
</tr>
<tr>
<td>Net loss per common share</td>
<td>(0.77)</td>
<td>(0.11)</td>
<td>(2.14)</td>
<td>(0.30)</td>
<td>(31.32)</td>
</tr>
</tbody>
</table>

The accompanying notes to consolidated financial statements are an integral part of these statements.
## Consolidated Statements of Cash Flows (unaudited)

Inception

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>CASH FLOWS FROM OPERATING ACTIVITIES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td>$(6,600,813)</td>
<td>$(3,525,506)</td>
<td>$(20,033,915)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used for operating activities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>148,228</td>
<td>46,085</td>
<td>522,722</td>
</tr>
<tr>
<td>Interest expense on note payable</td>
<td></td>
<td>6,900</td>
<td>72,694</td>
</tr>
<tr>
<td>Accrued interest on long-term financing</td>
<td>226,248</td>
<td></td>
<td>796,098</td>
</tr>
<tr>
<td>Accrued interest on short-term financing</td>
<td></td>
<td>(100,000)</td>
<td>7,936</td>
</tr>
<tr>
<td>Intangibles and equipment write down</td>
<td></td>
<td></td>
<td>278,318</td>
</tr>
<tr>
<td>Equity and notes payable issued for expenses</td>
<td></td>
<td></td>
<td>546,188</td>
</tr>
<tr>
<td>Settlement with consultant</td>
<td></td>
<td></td>
<td>(28,731)</td>
</tr>
<tr>
<td>Deferred license revenue</td>
<td></td>
<td>550,000</td>
<td>550,000</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>941,825</td>
<td>116,078</td>
<td>1,336,208</td>
</tr>
<tr>
<td>Changes in certain operating assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>84,562</td>
<td>(263,295)</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>26,687</td>
<td>7,293</td>
<td>201,683</td>
</tr>
<tr>
<td>Intangibles</td>
<td>(11,725)</td>
<td>(839)</td>
<td>443,415</td>
</tr>
<tr>
<td>Accounts payable and accrued expenses</td>
<td>(438,656)</td>
<td>(420,085)</td>
<td>740,067</td>
</tr>
<tr>
<td><strong>Net cash used for operating activities:</strong></td>
<td>(5,903,266)</td>
<td>(3,358,021)</td>
<td>(15,857,576)</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

| Purchases of property and equipment | (887,871) | (128,293) | (1,502,805) |

**CASH FLOWS FROM FINANCING ACTIVITIES:**

| Proceeds from notes payable, related party | 302,000 |
| Payments on notes payable, related party | (309,936) |
| Proceeds from senior bridge notes payable | 1,850,000 |
| Payments on senior bridge notes | (1,000,000) | (1,850,000) |
| Proceeds from notes payable and long term financing | 1,951,327 |
| Payments on notes payable and long term financing | (718,099) | (133,837) | (1,138,245) |
| Proceeds from issuance of common stock, stock option | 9,241 | 9,990 | 10,226,683 |
| Proceeds from preferred stock | 2,682,089 | 11,637,031 |
| Purchase of treasury stock | (1,667) |
| **Net cash (used for) provided by financing activities:** | (708,768) | 1,558,251 | 22,667,193 |
The accompanying notes to consolidated financial statements are an integral part of these statements.

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

(1) ORGANIZATION ACTIVITIES:

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

Business Risk -- Since its inception, the Company has devoted substantially all of its efforts and resources to the research and development of its technologies. The Company has experienced operating losses in each year since its inception and, as of March 31, 1998, the Company had a deficit accumulated during the development stage of $20,033,915. The Company expects to incur additional operating losses over the next several years and expects cumulative losses to increase as research and development and clinical testing efforts continue and expand. The ultimate completion of the Company’s development projects is contingent upon a number of factors, including the successful completion of technology and product development, obtaining required regulatory approvals and additional financing and, ultimately, achieving profitable operations.

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

(2) BASIS OF PRESENTATION:

The accompanying financial statements have been prepared by the Company without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the "Commission"). Certain information and footnote disclosures normally included in the Company's audited annual financial statements have been condensed or omitted in the Company's interim financial statements. In the opinion of the Company, these financial statements contain all adjustments (consisting of only normal recurring adjustments) necessary to present fairly the financial position of the Company as of March 31, 1998 and June 30, 1997,
The results of operations for the interim period may not necessarily be indicative of the results of operations expected for the full year, except that the Company expects to incur a significant loss for the fiscal year ended June 30, 1998.

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

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation -- The consolidated financial statements include the accounts of Palatin and its wholly owned subsidiary, RhoMed Incorporated ("RhoMed"). The remaining subsidiary of Palatin, Interfilm Technologies, Inc., is inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

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

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

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

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

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

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

(4) PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at:

<table>
<thead>
<tr>
<th>March 31, 1998</th>
<th>June 30, 1997</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office equipment</td>
<td>$349,905</td>
</tr>
<tr>
<td>Laboratory equipment</td>
<td>374,006</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>1,323,105</td>
</tr>
<tr>
<td>Less: Accumulated depreciation</td>
<td>375,814</td>
</tr>
<tr>
<td>$1,671,202</td>
<td>$922,096</td>
</tr>
</tbody>
</table>

(5) LONG-TERM DEBT:

The Company has a long-term financing agreement with Aberlyn Holding Co., Inc., and its affiliates ("Aberlyn"). The Company is obligated to make monthly principal and interest payments of $91,695 from June 1, 1997 through May 1, 1999. At March 31, 1998, the total principal on the long-term debt was $1,171,130.

(6) COMMITMENTS AND CONTINGENCIES:

Consulting Agreements -- The Company is obligated under four consulting agreements to make payments totaling $181,300 in fiscal 1998.

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

(7) STOCKHOLDERS' EQUITY (DEFICIT):

On March 24, 1998, the stockholders of the Company approved a proposal to grant non-plan options to acquire 74,196 shares of Common Stock, exercisable at $1.00 per share, to each of Carl Spana, Ph.D., and Charles Putnam, executive officers of the Company, to replace options to acquire the same number of shares of Common Stock exercisable at $5.42 per share. The grant of these options resulted in recognition of compensation expense, as to that portion of the options exercisable at March 31, 1998, of $408,078.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS.
GENERAL

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto filed as part of this Form 10-QSB. Unless otherwise indicated herein, all references to the Company include Palatin and its wholly owned subsidiary, RhoMed.

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

The Company's business is subject to significant risks, including the uncertainties associated with product development of pharmaceutical products, problems or delays with clinical trials, failure to receive or delays in receiving regulatory approval, lack of enforceability of patents and proprietary rights, manufacturing capacity, industry trends, competition, material costs and availability, changes in business strategy or development plans, quality of management, availability of capital, availability of qualified personnel, the effect of government regulation, the possible effect of Year 2000 issues and other risks detailed in the Company's Commission filings, including the Company's Form 10-KSB for the year ended June 30, 1997. The Company expects to incur substantial operating losses over the next several years due to continuing expenses associated with its research and development programs, including pre-clinical testing, clinical trials and manufacturing. Operating losses may also fluctuate from quarter to quarter as a result of differences in the timing of when expenses are incurred.

RESULTS OF OPERATIONS


Grants and contracts - During the nine month period ended March 31, 1998, the Company completed its four Phase I grants under the Small Business Innovative Research program with the National Institutes of Health of the Department of Health and Human Services. Grant revenue from these grants was $33,967 and $267,862 in the nine month periods ended March 31, 1998 and 1997, compared to no grant revenues in the three month period ended March 31, 1998 and $267,862 in grant revenues in the three month period ended March 31, 1997.

Sales - There was no revenue from the sale of products in the three and nine month periods ended March 31, 1998, and the three month period ended March 31, 1997, compared to $22,184 in the nine month period ended March 31, 1997. During the fiscal year ended June 30, 1997 the Company discontinued the manufacture and sale of RhoChek, the sole product sold by the Company, due to insufficient sales.

Research and development expenses increased to $1,814,572 for the three month period ended March 31, 1998 compared to $1,050,400 for the three month period ended March 31, 1997, and increased to $4,678,421 for the nine month period ended March 31, 1998 compared to $2,300,669 for the nine month period ended
March 31, 1997. The Company substantially increased research and development spending, primarily relating to development of the LeuTech product for diagnostic imaging of infections, including increased expenses for manufacturing scale-up, consulting and clinical trials, and also relating to research expenses on the Company's MIDAS metallopeptide technology. The Company expects research and development expenses to continue to increase in future quarters as the Company expands manufacturing efforts and clinical trials on the LeuTech product, significantly expands its efforts to develop the MIDAS technology and initiates development on the PT-14 peptide therapeutic product. The increase is also attributable to the amortization of deferred compensation, and to the value of options granted at exercise prices below the then current market price of the Company's Common Stock, totaling $408,078 for the three and nine month period ended March 31, 1998.

General and administrative expenses decreased to $646,109 for the three month period ended March 31, 1998 compared to $793,370 for the three month period ended March 31, 1997 and expenses increased to $2,125,718 for the nine month period ended March 31, 1998 compared to $1,740,125 for the nine month period ended March 31, 1997. The increase in general and administrative expenses were mainly attributable to the amortization of deferred compensation, totaling $164,000 for the three month period ended March 31, 1998 and $493,000 for the nine month period ended March 31, 1998, and the value of options granted at exercise prices below the then current market price of the Company's Common Stock. General and administrative expenses are expected to remain consistent with the current levels through the remainder of fiscal year 1998.

Interest income increased to $78,717 and $347,475 for the three and nine month periods ended March 31, 1998 compared to $36,330 and $159,023 for the three and nine month periods ended March 31, 1997. The increase in interest income is primarily the result of interest on net proceeds from the Company's offering of Series A Convertible Preferred Stock.

Interest expense decreased to $53,937 and $178,116 for the three and nine month periods ended March 31, 1998 compared to $84,927 and $301,200 for the three and nine month periods ended March 31, 1997. The decrease is due to the repayment by the Company of outstanding principal.

Net loss increased to $2,435,901 and $6,600,813 for the three and nine month periods ended March 31, 1998 compared to $1,257,086 and $3,525,506 for the three and nine month periods ended March 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has incurred net operating losses and, as of March 31, 1998, had an accumulated deficit of $20,033,915. The Company has financed its net operating losses through March 31, 1998 by a series of debt and equity financings. At March 31, 1998, the Company had cash and cash equivalents of $5,306,812.

For the nine months ended March 31, 1998, the net decrease in cash amounted to $7,499,905. Cash used for operating activities was $5,903,266, net cash used for
investing activities was $887,871 and cash used for financing activities was $708,768.

Pursuant to a license option agreement with Nihon Medi-Physics Ltd. ("Nihon"), Nihon can maintain its option to license certain products based on the Company's MIDAS technology provided Nihon makes certain milestone payments based on progress in product development. Nihon may exercise its right to negotiate a license at any time upon notice and payment of additional monies to the Company. In the event that the parties cannot agree on terms of a license agreement, then the Company may be required to repay $550,000 to Nihon. There can be no assurance that the Company and Nihon will ever enter into a definitive license agreement, that additional payments provided for in the license option agreement will be made, or that a strategic alliance between the Company and Nihon will result in the development or commercialization of any product.

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

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

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

The Company has entered into three license agreements, which require minimum yearly payments. Future minimum payments under the license agreements are as follows: 1998 - $150,000, 1999 - $150,000, 2000 - $200,000, 2001 - $150,000 and 2002 - $200,000.

The Company believes that it has sufficient cash and cash equivalents to fund the Company's projected debt obligations and operations through September 30, 1998.

The Company expects to continue actively searching for certain products and technologies to license or acquire in the future. If the Company is successful in identifying a product or technology for acquisition, substantial funds may be required for such acquisition and subsequent development or commercialization. There can be no assurance that any acquisition will be consummated in the future.

The Company anticipates incurring additional losses over at least the next several years, and such losses are expected to increase as the Company expands its research and development activities relating to LeuTech, PT-14 and its MIDAS technology. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, conduct pre-clinical studies and clinical trials, obtain required regulatory...
approvals and successfully manufacture and market such technologies and proposed products. The time required to reach profitability is highly uncertain, and there can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

On January 7, 1998, the Company sold 10,368 shares of Common Stock to exercising warrant holders for an aggregate consideration of $2,250. None of the shares of Common Stock were publicly offered or sold through underwriters, and no underwriting discounts or commissions were paid. The Company claimed exemption from registration pursuant to Section 4(2) of the Securities Act because each transaction involved the sale of restricted stock to the exercising holder of a restricted warrant, not involving any public offering.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

At the annual meeting of stockholders held on March 24, 1998 (the "Annual Meeting"), the following matters were voted on by the stockholders: (i) the election of five directors, (ii) approval of the grant of certain replacement stock options to Carl Spana, Ph.D., and Charles Putnam, executive officers of the Company, and (iii) ratification of the appointment of Arthur Andersen LLP as the Company's independent public accountants for the fiscal year ending June 30, 1998. The five directors elected, who constitute the Board of Directors of the Company, are Edward J. Quilty, Carl Spana, Michael S. Weiss, James T. O'Brien and John K.A. Prendergast. The following tables set forth the total votes, with Common Stock and Series A Convertible Preferred Stock voting as a single class:

(i) Election of Directors

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Withhold Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edward J. Quilty</td>
<td>3,059,422</td>
<td>13,405</td>
</tr>
<tr>
<td>Carl Spana</td>
<td>3,059,924</td>
<td>12,903</td>
</tr>
<tr>
<td>Michael S. Weiss</td>
<td>3,059,924</td>
<td>12,903</td>
</tr>
<tr>
<td>James T. O'Brien</td>
<td>3,059,924</td>
<td>12,903</td>
</tr>
<tr>
<td>John K.A. Prendergast</td>
<td>3,059,924</td>
<td>12,903</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>Affirmative</th>
<th>Negative</th>
<th>Abstentions</th>
<th>Broker Non-Votes</th>
</tr>
</thead>
<tbody>
<tr>
<td>(i) Grant of replacement stock options</td>
<td>1,570,760</td>
<td>125,174</td>
<td>24,076</td>
<td>-</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th></th>
<th>For</th>
<th>Withhold Authority</th>
</tr>
</thead>
<tbody>
<tr>
<td>Arthur Andersen LLP</td>
<td>3,056,814</td>
<td>7,312</td>
</tr>
</tbody>
</table>
ITEM 5. OTHER INFORMATION.

Series A Convertible Preferred Stock Conversion Price and Warrant Exercise Price Adjustments. As a result of approval at the Annual Meeting of the grant of certain replacement stock options, the conversion price for conversion of shares of Series A Convertible Preferred Stock into Common Stock (the “Series A Conversion Price”) was adjusted from $4.96 to $4.88. An aggregate of approximately 41,284 additional shares of Common Stock became issuable. As of April 28, 1998, the Company completed a private placement of 18,875 shares of Series B Convertible Preferred Stock of the Company for net proceeds of approximately $1,600,000. The Series A Conversion Price decreased from $4.88 to $4.85 as a result of this private placement. An aggregate of approximately 15,552 additional shares of Common Stock became issuable. The Series A Conversion Price is defined in the Certificate of Designations for the Series A Convertible Preferred Stock, filed as Exhibit 3.6 to the Company’s quarterly report on Form 10-QSB/A dated March 31, 1997. As a further result of the grant of the replacement stock options and the private placement of Series B Convertible Preferred Stock, the exercise prices of the following warrants were also adjusted:

<table>
<thead>
<tr>
<th>Warrant</th>
<th>Initial Exercise Price Per Share</th>
<th>Share Resulting from Series B Private Placement Option Grant</th>
<th>Net Increase in Shares</th>
<th>Share Resulting from</th>
<th>Net Increase in Shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class B Offering</td>
<td>$2.71</td>
<td>$2.64</td>
<td>NO CHANGE</td>
<td>1,040</td>
<td></td>
</tr>
<tr>
<td>Class B Placement Agent</td>
<td>$6.51</td>
<td>$6.27</td>
<td>$6.20</td>
<td>98</td>
<td></td>
</tr>
<tr>
<td>Common Stock Offering</td>
<td>$6.51</td>
<td>$6.27</td>
<td>$6.20</td>
<td>8,890</td>
<td></td>
</tr>
<tr>
<td>Financial Advisory Services</td>
<td>$9.00</td>
<td>$8.66</td>
<td>$8.37</td>
<td>470</td>
<td></td>
</tr>
<tr>
<td>Financial Advisory Services</td>
<td>$8.75</td>
<td>$8.42</td>
<td>$8.15</td>
<td>460</td>
<td></td>
</tr>
</tbody>
</table>

Appointment of Director. On April 30, 1998, Robert G. Moussa was appointed to the Board of Directors of the Company.

Series A Convertible Preferred Stock Conversion Price Reset Event. The Certificate of Designations for the Series A Convertible Preferred Stock provided for a Conversion Price Reset Event (as such term is defined in the Certificate of Designations) in the event that the average closing bid price of the Common Stock for the thirty (30) consecutive trading days immediately preceding May 9, 1998 was less than 130% of the then applicable Series A Conversion Price. The 30 consecutive trading day average for the Common Stock was higher than 130% of the Series A Conversion Price, and accordingly no adjustment in the Series A Conversion Price was required on account of the Conversion Price Reset Event.

PT-14 Product. As of March 31, 1998, the Company entered into a license agreement with Competitive Technologies, Inc. relating to PT-14, pursuant to
which the Company was granted an exclusive worldwide license to a patented peptide hormone for the diagnosis and treatment of sexual dysfunction. There can be no assurance that the Company’s efforts to develop PT-14 will be successful, that PT-14 will exhibit the expected biological results in humans, that PT-14 will prove to be safe and efficacious in clinical trials, that the Company will obtain the required regulatory approvals to market PT-14, that the Company or its collaborators will be successful in obtaining market acceptance of PT-14 or that PT-14 will ever be commercialized.

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

(A) EXHIBITS


27.1 Financial Data Schedule

(B) REPORTS ON FORM 8-K

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

SIGNATURES

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

PALATIN TECHNOLOGIES, INC.
(Registrant)

/s/ Edward J. Quilty

Edward J. Quilty
Chairman of the Board
and Chief Executive Officer

Date: May 14, 1998
This schedule contains summary financial information extracted from financial statements for the three and nine month period ended March 31, 1998 and is qualified in its entirety by reference to such financial statements.

Palatin Technologies, Inc.

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9-MOS

JUN 30 1998

JUL 1 1997

MAR 31 1998

5,306,812

0

0

0

5,508,494

2,047,016

375,814

7,256,450

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0

33,967
-----END PRIVACY-ENHANCED MESSAGE-----