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Originator-Key-Asymmetric:
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0001044808-98-000057.txt : 19981118
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ACCESSION NUMBER: 0001044808-98-000057
CONFORMED SUBMISSION TYPE: 10QSB
PUBLIC DOCUMENT COUNT: 5
CONFORMED PERIOD OF REPORT: 19980930
FILED AS OF DATE: 19981116

FILER:
COMPANY DATA:
COMPANY CONFORMED NAME: PALATIN TECHNOLOGIES INC
CENTRAL INDEX KEY: 0000911216
STANDARD INDUSTRIAL CLASSIFICATION: IN VITRO & IN VIVO DIAGNOSTIC SUBSTANCES [2835]
IRS NUMBER: 954078884
STATE OF INCORPORATION: DE
FISCAL YEAR END: 0630
FILING VALUES:
FORM TYPE: 10QSB
SEC ACT: SEC FILE NUMBER: 000-22686
FILM NUMBER: 98751159
BUSINESS ADDRESS:
STREET 1: 214 CARNEGIE CENTER
STREET 2: SUITE 100
CITY: PRINCETON
STATE: NJ
ZIP: 08540
BUSINESS PHONE: 6095201911
MAIL ADDRESS:
STREET 1: 214 CARNEGIE CENTER
STREET 2: SUITE 100
CITY: PRINCETON
STATE: NJ
ZIP: 08540
FORMER COMPANY:
FORMER CONFORMED NAME: INTERFILM INC
DATE OF NAME CHANGE: 19930825

10QSB
1
FORM 10-QSB FOR PERIOD ENDED 09/30/98

==============================================================================
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 September 30, 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

--------END PRIVACY-ENHANCED MESSAGE--------
(Exact name of small business issuer as specified in its charter)

DELAWARE 95-4078884
State or other jurisdiction of (I.R.S. Employer Identification No.)
incorporation or organization)

214 CARNEGIE CENTER - SUITE 100
PRINCETON, NEW JERSEY 08540
(Address of principal executive offices) (Zip Code)

Issuer’s telephone number: (609) 520-1911

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 November 9, 1998, 4,712,284 shares of the Issuer’s common stock, par value $.01 per share, were outstanding.

Transitional Small Business Disclosure Format: Yes [] No [X]

================================================================================

PALATIN TECHNOLOGIES, INC.

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PART I - FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>(unaudited)</td>
<td>(audited)</td>
</tr>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents, including restricted cash of $185,000</td>
<td>$3,704,725</td>
<td>$4,511,187</td>
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<tr>
<td>Prepaid expenses and other</td>
<td>173,020</td>
<td>277,765</td>
</tr>
<tr>
<td>Total current assets</td>
<td>$3,877,745</td>
<td>$4,788,952</td>
</tr>
<tr>
<td>Fixed assets, net of accumulated depreciation and amortization of $509,410 and $454,705 respectively</td>
<td>$1,571,237</td>
<td>$1,610,117</td>
</tr>
<tr>
<td>Intangibles, net of accumulated amortization of $119,299 and $116,247, respectively</td>
<td>$81,804</td>
<td>76,000</td>
</tr>
<tr>
<td></td>
<td>$5,530,786</td>
<td>$6,475,069</td>
</tr>
<tr>
<td><strong>LIABILITIES AND STOCKHOLDERS' EQUITY</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current liabilities:</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Accounts payable                                                                                     $913,751    $461,546  
Accrued expenses                                                                                       682,389    1,134,388  
Current portion of long-term debt                                                                 697,881    939,588  

Total current liabilities                                                                       2,294,021    2,535,522  

Deferred license revenue                                                                     550,000    550,000  

Commitments and contingencies (Note 6)  

Stockholders’ equity:  

Preferred stock of $.01 par value—authorized 10,000,000 shares;  
Series A Convertible; 78,284 and 88,329 shares issued and outstanding  
as of September 30, 1998 and June 30, 1998, respectively;  
Series B Convertible; 18,875 shares issued and outstanding as of  
September 30, 1998 and June 30, 1998;  
Common stock of $.01 par value—authorized 75,000,000 shares;  
issued and outstanding 4,669,946 and 4,099,623 shares as of  
September 30, 1998 and June 30, 1998, respectively;  
Additional paid-in capital  
Warrants  
Unamortized deferred compensation  
Deficit accumulated during development stage  

Total stockholder’s equity                                      2,686,765    3,389,547  

$5,530,786    $6,475,069  

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

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PALATIN TECHNOLOGIES, INC.  
(A Development Stage Enterprise)  
CONSOLIDATED STATEMENTS OF OPERATIONS  
(unaudited)
## Inception (January 28, 1986)

Three Months Ended September 30, through September 30, 1998

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>$33,967</td>
<td>$3,244,652</td>
<td></td>
</tr>
<tr>
<td>License fees and royalties</td>
<td>684,296</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td>$318,917</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td></td>
<td>33,967</td>
<td>4,247,865</td>
</tr>
<tr>
<td><strong>OPERATING EXPENSES:</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Research and development</td>
<td>2,137,591</td>
<td>1,389,782</td>
<td>17,055,698</td>
</tr>
<tr>
<td>General and administrative</td>
<td>846,290</td>
<td>680,234</td>
<td>11,389,890</td>
</tr>
<tr>
<td>Restructuring charge</td>
<td>$284,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net intangibles write down</td>
<td>$259,334</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>2,983,881</td>
<td>2,070,016</td>
<td>28,988,922</td>
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<tr>
<td><strong>OTHER INCOME (EXPENSES):</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest income</td>
<td>60,216</td>
<td>145,879</td>
<td>836,375</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(33,999)</td>
<td>(75,523)</td>
<td>(1,678,992)</td>
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<tr>
<td>Placement agent commissions and fees on debt offering</td>
<td>(168,970)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Merger costs</td>
<td>(525,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total other (expenses)</strong></td>
<td>26,217</td>
<td>70,356</td>
<td>(1,536,587)</td>
</tr>
<tr>
<td><strong>NET LOSS</strong></td>
<td>$(2,957,664)</td>
<td>$(1,965,693)</td>
<td>$(26,277,644)</td>
</tr>
<tr>
<td>Preferred stock dividend</td>
<td>(3,421,525)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>NET LOSS ATTRIBUTABLE TO COMMON</strong></td>
<td>$(2,957,664)</td>
<td>$(1,965,693)</td>
<td>$(29,399,169)</td>
</tr>
<tr>
<td>Basic and diluted net loss per common share</td>
<td>$(0.66)</td>
<td>$(0.65)</td>
<td>$(33.29)</td>
</tr>
<tr>
<td>Weighted average number of common shares outstanding used in computing basic and diluted net loss per common share</td>
<td>4,502,090</td>
<td>3,038,406</td>
<td>882,992</td>
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</table>

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.
PALATIN TECHNOLOGIES, INC  
(A Development Stage Enterprise)  
CONSOLIDATED STATEMENTS OF CASH FLOWS  
(unaudited)

Inception  
(January 28, 1986)  
Three Months Ended September 30, Through  

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</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>$(2,957,664)</td>
<td>$(1,965,693)</td>
<td>$(26,277,644)</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>57,757</td>
<td>29,975</td>
<td>662,411</td>
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<tr>
<td>License fee</td>
<td>500,000</td>
<td></td>
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</tr>
<tr>
<td>Interest expense on note payable</td>
<td>3,382</td>
<td>72,694</td>
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<tr>
<td>Accrued interest on long-term financing</td>
<td></td>
<td>796,038</td>
<td></td>
</tr>
<tr>
<td>Accrued interest on short term financing</td>
<td></td>
<td>7,996</td>
<td></td>
</tr>
<tr>
<td>Intangibles and equipment write down</td>
<td></td>
<td>278,318</td>
<td></td>
</tr>
<tr>
<td>Equity and notes payable issued for expenses</td>
<td></td>
<td>623,688</td>
<td></td>
</tr>
<tr>
<td>Settlement with consultant</td>
<td>(28,731)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>550,000</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>254,881</td>
<td>215,714</td>
<td>2,372,574</td>
</tr>
<tr>
<td>Changes in certain operating assets and liabilities:</td>
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</tr>
<tr>
<td>Accounts receivable</td>
<td>(400,967)</td>
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<tr>
<td>Prepaid expenses and other</td>
<td>(104,578)</td>
<td>24,154</td>
<td>(382,344)</td>
</tr>
<tr>
<td>Intangibles</td>
<td>(8,856)</td>
<td>(7,961)</td>
<td>(454,556)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>452,205</td>
<td>89,090</td>
<td>912,851</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(451,999)</td>
<td>249,583</td>
<td>222,122</td>
</tr>
<tr>
<td><strong>Net cash used for operating activities</strong></td>
<td>(2,758,254)</td>
<td>(1,946,903)</td>
<td>(26,144,646)</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM INVESTING ACTIVITIES:**

Purchases of property and equipment | (15,825) | (1,115,452) | (2,135,988)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

Proceeds from notes payable, related party | 302,000 |
Payments on notes payable, related party | (389,936) |
Proceeds from senior bridge notes payable | 1,850,000 |
The accompanying notes to the consolidated financial statements are an integral part of these financial 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 and Liquidity - The Company's accompanying financial statements have been prepared in conformity with principles of accounting applicable to a going concern. These principles contemplate the realization of assets and the satisfaction of liabilities in the normal course of business.

As shown in the accompanying financial statements, the Company incurred substantial net losses of $2,957,664 for the three months ended September 30,
1998 and has a deficit accumulated during development stage of $26,277,644. The Company anticipates incurring additional operating 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 various technologies. 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.

Management plans to continue to refine its operations, control expenses, evaluate alternative methods to conduct its business, and seek available and attractive sources of debt or equity financing through a combination of private placements and sharing of development costs, or other resources. Management believes that through one or a combination of such factors that it will be able to obtain adequate financing to fund the Company’s operations through fiscal 1999. There can be no assurance that the Company’s efforts will be successful. If a significant operating expense reduction plan were implemented, it would require the Company to delay, scale back or eliminate significant aspects of the Company’s operations.

(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 September 30, 1998 and June 30, 1998, and the results of operations for the three month period ended September 30, 1998 and 1997 and for the period from inception (January 28, 1986) to September 30, 1998 and cash flows for the three months ended September 30, 1998 and 1997, and for the period from inception (January 28, 1986) to September 30, 1998. 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, 1999.

The accompanying financial statements and the related notes should be read in conjunction with the Company’s audited financial statements for the fiscal years ended June 30, 1998 and 1997 and the ten months ended June 30, 1996, filed with the Company's Form 10-KSB for the year ended June 30, 1998.

(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 -- Grant and contract revenues are recognized as services are provided. License and royalty revenues are recognized when earned. Product revenues are recognized upon shipment.

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

Net Loss per Common Share -- Effective December 31, 1997 the Company adopted SFAS No. 128, "Earnings per Share" ("SFAS 128"), which supersedes Accounting Principles Board Opinion No. 15, "Earnings per Share." SFAS 128 requires dual presentation of basic and diluted earnings per share ("EPS") for complex capital structures on the face of the statement of operations. Basic EPS is computed by dividing the income (loss) by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise or conversion of securities into common stock, such as stock options. For the three months ended September 30, 1998 and 1997 and for the period from inception (January 28, 1986) through September 30, 1998, there were no dilutive effects of stock options or warrants as the Company incurred a net loss in each period. Options and warrants to purchase 1,872,118 shares of common stock at prices ranging from $0.20 to $360 per share were outstanding at September 30, 1998. In accordance with the provisions of SFAS 128, EPS for prior periods have been restated.

(4) PROPERTY AND EQUIPMENT:

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Office equipment</td>
<td>$ 368,051</td>
<td>$ 361,087</td>
</tr>
<tr>
<td>Laboratory equipment</td>
<td>381,991</td>
<td>380,631</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>1,330,605</td>
<td>1,323,104</td>
</tr>
<tr>
<td></td>
<td>2,080,647</td>
<td>2,064,822</td>
</tr>
<tr>
<td>Less: Accumulated depreciation and Amortization</td>
<td>(509,410)</td>
<td>(454,705)</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
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. When used in this Form 10-QSB, statements that are not statements of historical fact may be deemed to be forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this Form 10-QSB. The Company undertakes no obligation to publicly release the result of any revisions to these forward-looking statements that may be made to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.

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 filings with the Commission, including the Company’s Form 10-KSB for the year ended June 30, 1998. 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 - There was no revenue from grants and contracts during the three month period ended September 30, 1998, compared to $33,967 from grants in the three month period ended September 30, 1997. During the three month period ended September 30, 1997, the Company completed its four Phase I grants under the Small Business Innovative Research program with the National Institutes of Health of the Department of Health and Human Services.

Sales - There was no revenue from the sale of products during the three month periods ended September 30, 1998 and September 30, 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 - Research and development expenses increased to $2,137,591 for the three month period ended September 30, 1998 compared to $1,389,782 for the three month period ended September 30, 1997. The Company substantially increased research and development spending, primarily relating to development of the LeuTech(TM) 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 PT-14(TM) peptide therapeutic product and MIDAS(TM) metallopeptide technology. The Company expects research and development expenses to continue to increase in future quarters as the Company expands clinical trials and manufacturing efforts and the LeuTech product and expands efforts to develop PT-14 and MIDAS technology.

General and administrative - General and administrative expenses increased to $846,290 for the three month period ended September 30, 1998 compared to $680,234 for the three month period ended September 30, 1997. The increase in general and administrative expenses were mainly attributable to the amortization of deferred compensation, totaling $254,881 for the three month period ended September 30, 1998, and the value of options granted at exercise prices below the then current market price of the Company’s common stock.

Interest income - Interest income decreased to $60,216 for the three month period ended September 30, 1998 compared to $145,879 for the three month period ended September 30, 1997. The decrease in interest income is primarily
the result of the depletion of funds available for investment purposes and used to fund the Company's operations.

Interest expense - Interest expense decreased to $33,999 for the three month period ended September 30, 1998 compared to $75,523 for the three month period ended September 30, 1997. The decrease is due to the repayment by the Company of a portion of outstanding principal on long-term debt provided by Phoenixcor.

Net loss - Net loss increased to $2,957,664 for the three month period ended September 30, 1998 compared to $1,965,693 for the three month period ended September 30, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has incurred net operating losses and as of September 30, 1998, had a deficit accumulated during development stage of $26,277,644. The Company has financed its net operating losses through September 30, 1998 by a series of debt and equity financings. At September 30, 1998, the Company had cash and cash equivalents of $3,704,725.

For the three months ended September 30, 1998, the net decrease in cash amounted to $806,462. Cash used for operating activities was $2,758,254, net cash used for investing activities was $15,825 and cash provided by financing activities was $1,967,617.

As of July 8, 1998, the Company completed a private placement of 363,636 shares of common stock of the Company for gross proceeds of $2,000,000 and net proceeds of approximately $1,964,000. The net proceeds will be used for research and development of an oral dosage form of PT-14.

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 payable to Phoenixcor 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 fiscal year payments under the license agreements are as follows: 1999 - $150,000, 2000 - $200,000, 2001 - $150,000, 2002 - $200,000 and 2003 - $200,000.

The Company expects to continue actively searching for certain products, technologies to license or acquire in the future, and corporate partnerships, depending on the financial resources of the Company. 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 has incurred negative cash flows from operations since its inception, and has expended, and expects to continue to expend in the future, substantial funds to complete its planned product development efforts. The Company anticipates incurring additional losses over at least the next several years, and expects such losses to increase as the Company expands its research and development activities relating to LeuTech, PT-14 and its MIDAS technology. The Company's future capital requirements and the adequacy of available funds depends on numerous factors, including progress in its product development efforts, the magnitude and scope of such efforts, progress with pre-clinical studies and clinical trials, progress with regulatory affairs activities, the cost of filing, prosecution, defending and enforcing patent claims and other intellectual property rights, competing technological and market developments, and identifying and consummating suitable strategic alliances. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its 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.

The Company expects that its existing capital resources will be adequate to fund the Company's projected debt obligations and operations through the first calendar quarter of 1999, based on current expenditure levels. The Company is actively attempting to obtain additional funds through equity or debt financing, strategic alliances with corporate partners and others, or through other sources. Based on the Company's historical ability to raise capital and current market conditions, the Company believes financing alternatives are available. There can be no assurance the Company's efforts will be successful. If adequate funds are not available, the Company may be required to delay, scale back or eliminate certain aspects of its operations or attempt to obtain funds through arrangements with collaborative partners or others that may require the Company to relinquish rights to certain of its technologies, product candidates, products or potential markets. If adequate funds are not available, the Company's business, financial condition and results of operations will be materially and adversely affected.

YEAR 2000 COMPATIBILITY
The year 2000 issue is the result of computer programs being written using two digits rather than four to define the applicable year. In other words, date-sensitive software may recognize a date using "00" as the year 1900 rather than the year 2000. This could result in system failures or miscalculations causing disruptions of operations, including, among others, a temporary inability to process transactions and information or engage in similar normal business activities.

The Company is working to resolve the potential impact of the year 2000 on the ability of the Company’s computerized information systems to accurately process information that may be date-sensitive. The Company believes that it does not have significant year 2000 issues related to its computerized information systems and is currently reviewing these systems. This review is expected to be completed during 1999.

In addition, it is also possible that certain computer systems or software products of the Company’s suppliers and contractors may not be year 2000 compatible. The Company is requesting assurances from all software vendors from which it has purchased or from which it may purchase software that such software will correctly process all date information at all times. Furthermore, the Company is querying its suppliers and contractors as to their progress in identifying and addressing problems that their computer systems will face in correct processing date information as the year 2000 approaches. The Company expects this assessment to be completed during 1999 and currently believes that costs of addressing this issue will not have a material adverse impact on the Company’s financial position. However, if the Company and third parties upon which it relies are unable to address this issue in a timely manner, it could result in a material financial risk to the Company. In order to assure that this does not occur, the Company plans to devote all resources required to resolve any significant year 2000 issues in a timely manner.

To date the Company has not made any contingency plans to address third-party year 2000 risks. The Company plans to formulate contingency plans to the extent necessary in 1999.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

As reported in Item 3 of the Company’s Form 10-KSB for the year ended June 30, 1998, and incorporated herein by reference, in July 1998 the litigation between the Company and Sony Corporation of America and certain of its affiliates and subsidiaries was settled.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

As of July 8, 1998, the Company sold 363,636 shares of unregistered common stock to TheraTech at a sale price of $5.50 per share in a non-underwritten transaction, for gross proceeds of $2,000,000. The net proceeds of the offering, approximately $1,964,000, will be used for research and development of the dosage form of PT-14. The common stock was sold to TheraTech,
an accredited investor, pursuant to Rule 506 of Regulation D promulgated under the Securities Act of 1933, as amended. TheraTech represented to the Company that it was purchasing the common stock for its own account for investment and not with a view toward resale or distribution to others. The certificate representing the common stock bears a restrictive legend. On October 14, 1998, the Commission declared a registration statement registering these shares of common stock for resale effective.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

On October 1, 1998, the Company announced that it had initiated Phase 3 clinical trials of its LeuTech infection imaging agent for diagnosis of equivocal appendicitis at ten major medical centers around the United States.

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

(A) EXHIBITS

10.38 Employment Agreement effective August 1, 1998 between Palatin Technologies, Inc. and Carl Spana.*
27.1 Financial Data Schedule

*B A management contract or compensatory plan or arrangement.

(B) REPORTS ON FORM 8-K

One report on Form 8-K was filed by the Company during the three months ended September 30, 1998. The report was filed on July 9, 1998, with a date of report of July 8, 1998, and reported on Item 5, Other Events, relating to the sale of 363,636 shares of common stock of the Company to TheraTech.
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)

Date: November 16, 1998 /s/ Edward J. Quilty
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Edward J. Quilty
Chairman of the Board
and Chief Executive Officer

Date: November 16, 1998 /s/ Stephen T. Wills
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Stephen T. Wills
Vice President and Chief Financial
Officer (Principal Financial and
Accounting Officer)
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), made this 9th day of October, 1998, is entered into by Palatin Technologies, Inc., a Delaware corporation with its principal place of business at 214 Carnegie Center, Suite 100, Princeton, New Jersey 08540 (the "Company"), and Charles Putnam, residing at 11 Woodview Drive, Belle Mead, New Jersey 08502 (the "Employee").

The Company desires to employ the Employee, and the Employee desires to be employed by the Company. In consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

1. Term of Employment. The Company hereby agrees to employ the Employee, and the Employee hereby accepts employment with the Company, upon the terms set forth in this Agreement, for the period commencing on September 11, 1998 (the "Commencement Date") and ending on September 10, 2001 (such period, as it may be extended, the "Employment Period"), unless sooner terminated in accordance with the provisions of Section 4.

2. Title; Capacity.

2.1 The Employee shall serve as Executive Vice President and Chief Operating Officer or in such other position as the Company or its Board of Directors (the "Board") may determine from time to time, with powers and duties as may be determined, from time to time, by the Board. The Employee shall be based at the Company's headquarters in Princeton, New Jersey.

2.2 The Employee hereby accepts such employment and agrees to undertake the duties and responsibilities inherent in such position and such other duties and responsibilities as the Board or its designee shall from time to time reasonably assign to him. The Employee agrees to devote substantially his entire business time, attention and energies to the business and interests of the Company during the Employment Period. Any outside activities will be reviewed with the Company in advance to ensure that such activities are not in conflict with the Employee's obligations to the Company. The Employee agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein which may be adopted from time to time by the Company. The Employee acknowledges receipt of copies of all such rules and policies committed to writing as of the date of this Agreement.

3. Compensation and Benefits. During the Employment Period, unless sooner terminated in accordance with the provisions of Section 4, the Employee
shall receive the following compensation and benefits:

3.1 Salary. The Company shall pay the Employee, in equal semi-monthly installments or otherwise in accordance with the Company's standard payroll policies as such policies may exist from time to time, an annual base salary of $200,000. Such salary shall be subject to review thereafter, as determined by the Company's Compensation Committee and approved by the Board, on an annual basis on June 15 of each year, but the Board shall not decrease the Employee's annual base salary at any such annual review.

3.2 Cash Performance Bonus. The Company shall pay the Employee bonus compensation of up to one year's base salary (which base salary shall not be less than $200,000 per year) in an amount to be decided by the Company's Compensation Committee and approved by the Board, payable annually, no later than March 31 of each year during the Employment Period. Such performance bonus compensation shall be based upon, inter alia, yearly objectives mutually agreed upon by and between the Employee and the Company.

3.3 Stock Options. As additional compensation for services rendered, the Company grants to the Employee the right and option to purchase all or any part of an aggregate of 50,000 shares of the Company's Common Stock (the "Option"), subject to the vesting schedule set forth in subparagraph c hereof and the adjustments set forth in subparagraph g hereof, which Option is a nonqualified stock option. The Option is in all respects limited and conditioned as provided hereunder.

(a) Purchase Price. Except as otherwise provided in subparagraph g hereof, the purchase price (the "Option Price") of the shares covered by the Option ("Option Shares") shall be the closing price of the Company's Common Stock on the National Association of Securities Dealers Automated Quotation System (Nasdaq) on September 11, 1998, to wit: $2.50.

(b) Option Term. Except as otherwise provided herein, the Option shall expire on the first to occur of: (i) ninety (90) days following the Employee's termination of employment with the Company, or (ii) September 11, 2008.

(c) Exercise of Option.

(i) Except as otherwise provided herein, the right of the Employee to exercise the Option is conditioned upon the Employee: (A) being in the employ of the Company, whether pursuant to this Agreement or otherwise, or (B) serving as a director of the Company.

(ii) The Option shall vest (except as otherwise provided herein): (A) on the Commencement Date with respect to the first 33% of the Option Shares, (B) on the first anniversary of the
Commencement Date (i.e., September 11) (the "Anniversary Date") with respect to the second 33% of the Option Shares, and (C) on the second Anniversary Date with respect to the remaining 34% of the Option Shares.

(iii) The Option may be exercised, to the extent vested, in whole or in part, at any time or times prior to the expiration or other termination thereof.

(d) Method Of Exercising Option.

(i) The Option may be exercised by giving written notice, in form substantially as set forth in Exhibit 1 hereof, to the Company at its principal office, specifying the number of Option Shares to be purchased and accompanied by payment in full of the aggregate purchase price for the Shares. Only full Shares shall be delivered and any fractional share which might otherwise be deliverable upon exercise of an Option granted hereunder shall be forfeited.

(ii) The purchase price shall be payable in cash or its equivalent.

(iii) Upon receipt of such notice and payment, the Company, within three (3) business days after Exercise, shall deliver or cause to be delivered a certificate or certificates representing the Shares with respect to which the Option is exercised. The certificate or certificates for such Shares shall be registered in the name of the person exercising the Option (or, if the Employee shall so request in the notice exercising the Option, in the name of the Employee and his spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person exercising the Option. In the event the Option is exercised by any person after the death or Legal Disability of the Employee, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. All Shares purchased upon the exercise of the Option as provided herein shall be fully paid and nonassessable by the Company.

(e) Non-transferability of Option. The Option is not assignable or transferable, in whole or in part, by the Employee, otherwise than by will or by the laws of descent and distribution. During the lifetime of the Employee, the Option shall be exercisable only by the Employee or, in the event of his Legal Disability, by his legal representative.

(f) Withholding of Taxes. The obligation of the Company to deliver Shares upon the exercise of any Option shall be subject to
any applicable federal, state and local tax withholding requirements.

(g) Adjustments. The number of Option Shares and the Option Price shall be adjusted as set forth herein:

(i) In the event that a stock dividend shall be declared on the Common Stock payable in shares of the Common Stock, the Option Shares shall be adjusted by adding to each Option Share the number of shares which would be distributable thereon if such Option Share had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend.

(ii) In the event that the outstanding shares of the Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company whether through recapitalization, stock split, combination of shares, or otherwise, then there shall be substituted for each Option Share the number and kind of shares of stock or the securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchanged.

(iii) In the event that the outstanding shares of the Common Stock shall be changed into or exchanged for shares of stock or other securities of another corporation, whether through reorganization, sale of assets, merger or consolidation in which the Company is the surviving corporation, then there shall be substituted for each Option Share the number and kind of shares of stock or the securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchanged.

(iv) In the event that any sale of shares of Common Stock (except any such sale made pursuant to any right, option, warrant or convertible security outstanding prior to the date of this Agreement), or the issuance of any rights, options, or warrants to subscribe for or purchase Common Stock (or securities convertible into or exchangeable for Common Stock) occurs after the date of this Agreement, which sale or issuance, in the aggregate, will increase the number of shares of Common Stock outstanding during the Term by Forty percent (40%), then, upon each such sale or issuance, the Employee shall be issued additional Option Shares such that, when the additional Option Shares are aggregated with the Option Shares heretofore owned by the Employee, the Employee has the right to purchase, at the same times set forth in paragraph 4(c), the same percentage of Common Stock at the same price per share as the Employee maintained prior to such sale or issuance.
(h) Share Ownership. Neither the Employee nor the Employee's legal representatives nor the executors or administrators of his estate shall be or be deemed to be the holder of any share of Common Stock covered by an Option unless and until a certificate for such share shall have been issued.

3.4 Fringe-Benefits. The Employee shall be entitled to participate in all bonus and benefit programs that the Company establishes and makes available to its employees, if any, to the extent that the Employee's position, tenure, salary, age, health and other qualifications make him eligible to participate. The Employee shall also be entitled to holidays and annual vacation leave in accordance with the Company's policy as it exists from time to time.

3.5 Reimbursement of Expenses. The Company shall reimburse the Employee for all reasonable travel, entertainment and other expenses incurred or paid by the Employee in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Employee of documentation, expense statements, vouchers and/or such other supporting information as the Company may request, provided, however, that the amount available for such travel, entertainment and other expenses may be fixed in advance by the Board.

3.6 Insurance. The Employee will be covered under the Company's Directors' and Officers' liability insurance to the same extent the Company's directors and officers are covered.

4. Employment Termination. The employment of the Employee by the Company pursuant to this Agreement shall terminate upon the occurrence of any of the following:

4.1 Expiration of the Employment Period in accordance with Section 1;

4.2 At the election of the Company, for Cause (as defined in Section 7), immediately upon written notice by the Company to the Employee, which notice of termination shall have been approved by a majority of the Board;

4.3 Immediately upon the death or determination of Legal Disability (as defined in Section 7) of the Employee;

4.4 At the election of the Employee, for Good Reason (as defined in Section 7), immediately upon written notice by the Employee to the Company;

4.5 At the election of the Employee, within twelve
(12) months following a Change in Control (as defined in Section 7), immediately upon written notice by the Employee to the Company;

4.6 At the election of either party, upon not less than thirty (30) days' prior written notice of termination (the "Notice of Termination").

5. Effect of Termination.

5.1 Termination for Cause or at Election of the Employee other than for Good Reason or due to a Change in Control. If, prior to the expiration of this Agreement, the Employee's employment is terminated for Cause pursuant to Section 4.2 (except in the case where such termination occurs within 12 months following a Change in Control), or at the election of the Employee pursuant to Section 4.6 other than for Good Reason or due to a Change in Control,

(a) the Company shall pay to the Employee the base salary and benefits otherwise payable to him under Section 3 through the last day of his actual employment by the Company (the "Date of Termination");

(b) the Employee shall cease to have the right to exercise any options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company, regardless of the extent to which they have vested, on or after the Date of Termination.

5.2 Termination by Reason of the Employee's Death or Legal Disability. If, prior to the expiration of this Agreement, the Employee's employment is terminated by the Employee's death or Legal Disability pursuant to Section 4.3,

(a) the Company shall, no later than the fifth business day following the death or determination of Legal Disability (the "Date of Termination"), pay to the Employee, or in the case of the Employee's death, to the estate of the Employee,

(i) the Employee's base salary and benefits otherwise payable to him through the Date of Termination, and

(ii) an amount equal to the greater of the aggregate base salary payments which the Employee would have received for a six-month period after the Date of Termination if such termination had not occurred, or $100,000, and

(b) all options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock
option plan or other employee benefit plan with the Company which have not vested at such time but which would have vested on and prior to the next Anniversary Date shall immediately vest and become fully exercisable in accordance with their terms for a period of ninety (90) days following the Date of Termination.

5.3 Termination for Any Other Reason. If, prior to the expiration of this Agreement, the Employee's employment is terminated by the Employee for circumstances constituting Good Reason pursuant to Section 4.4 or due to a Change in Control pursuant to Section 4.5, or by the Company for any basis other than for Cause (as defined in Section 7) or for Cause pursuant to Section 4.2 if within twelve (12) months following a Change in Control, the Company shall provide the Employee with the following benefits:

(a) the Company shall pay to the Employee

(i) the Employee's base salary at the rate in effect at the time the Notice of Termination is given, benefits and all other compensation, including Employee's prorated cash performance bonus calculated by multiplying the Applicable Percentage (as defined in Section 7) by the greater of (x) the amount of the cash performance bonus awarded or paid to the Employee with respect to the Company's most recent full fiscal year for which such a bonus was awarded or paid to the Employee or (y) in the case of a Change in Control, the amount of cash performance bonus awarded or paid to the Employee with respect to the Company's last full fiscal year prior to the Change in Control for which such a bonus was awarded or paid to the Employee, through the Date of Termination, no later than the fifth full day following the Date of Termination, plus all other amounts to which the Employee is entitled under any compensation plan of the Company at the time such payments are due and

(ii) if the Employee so elects, in lieu of his right to continue to receive deferred compensation under any deferred compensation plan of the Company then in effect, no later than the fifth full day following the Date of Termination, a lump-sum amount, in cash, equal to the deferred amounts together with any earnings credited on such amounts under such plan;

(b) the Company will pay as severance to the Employee an amount equal to the sum of

(i) the greatest of (x) the aggregate Salary payments which the Employee would have received during the balance of the Term if such termination had not occurred, (y) in the case of a Change in Control, the aggregate Salary payments which the Employee would have received during the balance of the Term based
on the Employee's annual base salary in effect immediately prior to the Change in Control, or (z) an amount equal to the Employee's highest annual base salary achieved while employed by the Company, plus

(ii) the greater of (x) the amount of the cash performance bonus awarded or paid to the Employee with respect to the Company's most recent full fiscal year for which such a bonus was awarded or paid to the Employee or (y) in the case of a Change in Control, the amount of cash performance bonus awarded or paid to the Employee with respect to the Company's last full fiscal year prior to the Change in Control for which such a bonus was awarded or paid to the Employee;

(c) all options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company which have not vested at such time shall immediately vest and become fully exercisable in accordance with their terms for a period of ninety (90) days following the Date of Termination;

(d) for a one-year period after the Date of Termination, the Company shall arrange to provide the Employee with life, disability, dental, accident, travel and group health insurance benefits substantially similar to those which the Employee was receiving immediately prior to the Notice of Termination. Notwithstanding the foregoing, the Company shall not provide any benefit otherwise receivable by the Employee pursuant to this paragraph (d) if an equivalent benefit is actually received by the Employee during the one-year period following the Date of Termination and any such benefit actually received by the Employee shall be reported to the Company; and

(e) for a six-month period after the Date of Termination, the Company shall reimburse the Employee for reasonable fees and expenses incurred by him for the purpose of locating employment in an amount mutually agreed upon by and between the Employee and the Company, including the fees and expenses of consultants and other persons retained by him for such purpose, promptly upon receipt by the Company of satisfactory evidence of payment of such fees and expenses.

5.4 No Requirement to Mitigate. The Employee shall not be required to mitigate the amount of any payment provided for herein by seeking other employment or otherwise.

5.5 Survival. The provisions of Sections 5, 6, 7, 8 and 9
shall survive the termination of this Agreement.

6. Withholding and Deductions. All payments hereunder shall be subject to withholding and to such other deductions as shall at the time of such payment be required pursuant to any income tax or other law, whether of the United States or any other jurisdiction, and, in the case of payments to the executors or administrators to the Employee's estate, the delivery to the Company of all necessary tax waivers and other documents.

7. Definitions. For purposes of this Agreement the following definitions apply:

7.1 "Cause" for termination shall mean the occurrence of any of the following circumstances:

(a) a good faith finding by the Company of the Employee's willful breach or habitual neglect or failure to perform the material duties which he is required to perform under the terms of this Agreement, materially fails to follow the reasonable directives or policies established by or at the direction of the Board, or conducts himself in a manner materially detrimental to the interests of the Company such that the Company sustains a material loss or injury as a result thereof and such breach or failure of performance is not cured within thirty (30) days of the delivery to the Employee of written notice thereof, which notice of breach or failure of performance shall have been approved by a majority of the Board,

(b) the willful breach by the Employee of Section 8 of this Agreement or any provision of any confidentiality, invention and non-disclosure, non-competition or similar agreement between the Employee and the Company, or

(c) the conviction of the Employee of, or the entry of a pleading of guilty or nolo contendere by the Employee to, any crime involving moral turpitude or any felony.

7.2 "Legal Disability" shall mean the inability of the Employee, by reason of illness, accident or other physical or mental disability, for a period of 120 days, whether or not consecutive, during any 360-day period, to perform the services contemplated under this Agreement. A determination of disability shall be made by a physician satisfactory to both the Employee and the Company; provided, however, that if the Employee and the Company do not agree on a physician, the Employee and the Company shall each select a physician and these two together shall select a third physician, whose determination as to disability shall be binding on all parties.

7.3 "Good Reason" shall mean the occurrence of any of
the following circumstances, and the Company fails to cure such circumstances within thirty (30) days of the delivery to the Company of written notice of such circumstances:

(a) any significant diminution in the Employee's duties and responsibilities as in effect on the Commencement Date;

(b) any reduction in the Employee's annual compensation as in effect on the Commencement Date or as the same may be increased from time to time;

(c) the failure of the Company to continue in effect any material compensation or benefit plan in which the Employee participates as in effect on the Commencement Date, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Employee's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Employee's participation relative to other participants, as in effect on the Commencement Date or the failure by the Company to award cash bonuses to its executives in amounts substantially consistent with past practice in light of the Company's financial performance;

(d) the failure by the Company to continue to provide the Employee with benefits substantially similar to those enjoyed by the Employee under any of the Company's insurance, medical, health and accident, or disability plans in which the Employee was participating as in effect on the Commencement Date, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits, or the failure by the Company to provide the Employee with the number of paid vacation days to which he is entitled in accordance with the Company's normal vacation policy in effect on the Commencement Date or in accordance with any agreement between the Employee and the Company existing at that time;

(e) any purported termination of the Employee's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 9, which purported termination shall not be effective for purposes of this Agreement.

7.4 "Change in Control" shall mean the occurrence of any of the following events:

(a) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other
fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities;

(b) individuals who, as of the Commencement Date, constitute the Board (as of the Commencement Date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the Commencement Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board;

(c) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than

(i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or

(ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

7.5 "Applicable Percentage" means the percentage
obtained by dividing the number of full or partial months worked in the most recent fiscal year for which the Employee has not been awarded or paid a cash performance bonus by twelve.

8. Restrictive Covenants.

(a) For the purposes of this Agreement:

(i) "Proprietary Information" means all information and know-how, whether or not in writing, of a private, secret or confidential nature concerning the company’s business or financial affairs, including, without limitation, inventions, products, processes, methods, techniques, formulas, compositions, compounds, projects, developments, plans, research data, clinical data, financial data, personnel data, computer programs and customer and supplier lists.

(ii) "Competing Products" means any products or processes of any person or organization other than the Company in existence or under development, which are substantially the same, may be substituted for, or applied to substantially the same end use as the products or processes that the Company is developing or has developed or commercialized during the time of the Employee's employment with the Company.

(iii) "Competing Organization" means any person or organization engaged in, or about to become engaged in, research or development, production, distribution, marketing or selling of a Competing Product.

(b) The Employee understands that information regarding the Company and its affiliates including, without limitation, Proprietary Information, is considered confidential to the Company and is of substantial commercial value to the Company. Any entrusting of such confidential information to the Employee by the Company is done so in reliance upon the confidential relationship arising from the terms of his employment with the Company. Therefore, in consideration of his employment with the Company,

(i) the Employee will not, during or after the Employment Period, disclose any such confidential information to any person, firm, corporation, association, or other entity for any reason or purpose whatsoever, except within the scope of his duties and responsibilities in the ordinary course of business, unless ordered to do so by a court or other tribunal or government agency with jurisdiction over the subject matter and Employee;

(ii) the Employee acknowledges that he has, on or prior to the date of the Agreement, executed and delivered to the Company a Non-Disclosure Agreement (the "Confidentiality Agreement") and the Employee hereby affirms and ratifies his obligations thereunder; and
(iii) the Employee agrees that after termination by the Company for Cause pursuant to Section 4.2 (except in the case where such termination occurs within 12 months following a Change in Control), or by the Employee pursuant to Section 4.6 other than for Good Reason or due to a Change in Control, he will not render services of any nature, directly or indirectly, to any Competing Organization in connection with any Competing Product within such geographical territory as the Company and such Competing Organization are or would be in actual competition, for a period of eighteen (18) months, commencing on the Date of Termination, provided, however, the aforementioned restrictions shall not be applicable to activities in which the Employee was, and continued to be, engaged in on the Commencement Date. The Employee understands that services rendered to such Competing Organization may have the effect of supporting actual competition in various geographic areas, and may be prohibited by this Agreement regardless of the geographic area in which such services are physically rendered. The Company may, in its sole discretion, elect to waive, in whole or in part, the obligation set forth in the previous sentence, such waiver to be effective only if given in writing by the Company.

(c) The Employee agrees that he will not, during the Employment Period and for a period of nine (9) months commencing on the Date of Termination, directly or indirectly employ, solicit for employment, or advise or recommend to any other person that they employ or solicit for employment, any person whom he knows to be an employee of the Company or any parent, subsidiary or affiliate of the Company.

(d) In the event a court of competent jurisdiction should find any provision in this Section 8 to be unfair or unreasonable, such finding shall not render such provision unenforceable, but, rather, this provision shall be modified as to subject matter, time and geographic area so as to render the entire Section valid and enforceable.

9. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown above, or at such other address or addresses as either party shall designate to the other in accordance with this Section 9.

10. Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.
11. Entire Agreement. This Agreement, together with the
Confidentiality Agreement, constitutes the entire agreement between the parties
and supersedes all prior agreements and understandings, whether written or oral,
relating to the subject matter of this Agreement.

12. Amendment. This Agreement may be amended or modified only by a
written instrument executed by both the Company and the Employee.

13. Governing Law. This Agreement shall be construed, interpreted and
enforced in accordance with the laws of New Jersey, without regard to its
principles of conflict of laws.

14. Successors and Assigns. This Agreement shall be binding upon and
inure to the benefit of both parties and their respective successors and
assigns, including any corporation with which or into which the Company may be
merged or which may succeed to its assets or business; provided, however, that
the obligations of the employee are unique and personal and shall not be
assigned by him.

15. Waiver of Breach.

15.1 Waiver by the Company. No delay or omission by
the Company in exercising any right under this Agreement shall operate as a
waiver of that or any other right. A waiver or consent given by the Company on
any one occasion shall be effective only in that instance and shall not be
construed as a bar or waiver of any right on any other occasion. No waiver by
the Company shall be valid unless in a writing signed by an authorized officer
of the Company and approved by an absolute majority of the Board.

15.2 Waiver by the Employee. No delay or omission by
the Employee in exercising any right under this Agreement shall operate as a
waiver of that or any other right. A waiver or consent given by the Employee on
any one occasion shall be effective only in that instance and shall not be
construed as a bar or waiver of any right on any other occasion. No waiver by
the Employee shall be valid unless in a writing signed by the Employee.


16.1 The captions of the sections of this Agreement
are for convenience of reference only and in no way define, limit or affect the
scope or substance of any section of this Agreement.

16.2 In case any provision of this Agreement shall be
invalid, illegal or otherwise unenforceable, the validity, legality and
enforceability of the remaining provisions shall be no way be affected or
impaired thereby.
IN WITNESS WHEREOF, the parties hereto have executed this Agreement as an instrument under seal as of the day and year set forth above.

PALATIN TECHNOLOGIES, INC.

By: /s/ Edward J. Quilty

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

EMPLOYEE

/s/ Charles Putnam

-----------------------
Charles Putnam

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EX-10.38
3
SPANA EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), made this 9th day of October, 1998, is entered into by Palatin Technologies, Inc., a Delaware corporation with its principal place of business at 214 Carnegie Center, Suite 100, Princeton, New Jersey 08540 (the "Company"), and Carl Spana, residing at 117 Winnebago Road, Yonkers, New York 10710 (the "Employee").

The Company desires to employ the Employee, and the Employee desires to be employed by the Company. In consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

1. Term of Employment. The Company hereby agrees to employ the Employee, and the Employee hereby accepts employment with the Company, upon the
terms set forth in this Agreement, for the period commencing on September 11, 1998 (the "Commencement Date") and ending on September 10, 2001 (such period, as it may be extended, the "Employment Period"), unless sooner terminated in accordance with the provisions of Section 4.

2. Title; Capacity.

2.1 The Employee shall serve as Executive Vice President and Chief Technology Officer or in such other position as the Company or its Board of Directors (the "Board") may determine from time to time, with powers and duties as may be determined, from time to time, by the Board. The Employee shall be based at the Company's headquarters in Princeton, New Jersey.

2.2 The Employee hereby accepts such employment and agrees to undertake the duties and responsibilities inherent in such position and such other duties and responsibilities as the Board or its designee shall from time to time reasonably assign to him. The Employee agrees to devote substantially his entire business time, attention and energies to the business and interests of the Company during the Employment Period. Any outside activities will be reviewed with the Company in advance to ensure that such activities are not in conflict with the Employee's obligations to the Company. The Employee agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein which may be adopted from time to time by the Company. The Employee acknowledges receipt of copies of all such rules and policies committed to writing as of the date of this Agreement.

3. Compensation and Benefits. During the Employment Period, unless sooner terminated in accordance with the provisions of Section 4, the Employee shall receive the following compensation and benefits:

3.1 Salary. The Company shall pay the Employee, in equal semi-monthly installments or otherwise in accordance with the Company's standard payroll policies as such policies may exist from time to time, an annual base salary of $176,000. Such salary shall be subject to review thereafter, as determined by the Company's Compensation Committee and approved by the Board, on an annual basis on June 15 of each year, but the Board shall not decrease the Employee's annual base salary at any such annual review.

3.2 Cash Performance Bonus. The Company shall pay the Employee bonus compensation of up to one year's base salary (which base salary shall not be less than $176,000 per year) in an amount to be decided by the Company's Compensation Committee and approved by the Board, payable annually, no later than March 31 of each year during the Employment Period. Such performance bonus compensation shall be based upon, inter alia, yearly objectives mutually agreed upon by and between the Employee and the Company.

3.3 Stock Options. As additional compensation for services rendered, the Company grants to the Employee the right and option to purchase all or any part of an aggregate of 50,000 shares of the Company's Common Stock
(the "Option"), subject to the vesting schedule set forth in subparagraph c hereof and the adjustments set forth in subparagraph g hereof, which Option is a nonqualified stock option. The Option is in all respects limited and conditioned as provided hereunder.

(a) Purchase Price. Except as otherwise provided in subparagraph g hereof, the purchase price (the "Option Price") of the shares covered by the Option ("Option Shares") shall be the closing price of the Company's Common Stock on the National Association of Securities Dealers Automated Quotation System (Nasdaq) on September 11, 1998, to wit: $2.50.

(b) Option Term. Except as otherwise provided herein, the Option shall expire on the first to occur of: (i) ninety (90) days following the Employee's termination of employment with the Company, or (ii) September 11, 2008.

(c) Exercise of Option.

(i) Except as otherwise provided herein, the right of the Employee to exercise the Option is conditioned upon the Employee: (A) being in the employ of the Company, whether pursuant to this Agreement or otherwise, or (B) serving as a director of the Company.

(ii) The Option shall vest (except as otherwise provided herein): (A) on the Commencement Date with respect to the first 33% of the Option Shares, (B) on the first anniversary of the Commencement Date (i.e., September 11) (the "Anniversary Date") with respect to the second 33% of the Option Shares, and (C) on the second Anniversary Date with respect to the remaining 34% of the Option Shares.

(iii) The Option may be exercised, to the extent vested, in whole or in part, at any time or times prior to the expiration or other termination thereof.

(d) Method Of Exercising Option.

(i) The Option may be exercised by giving written notice, in form substantially as set forth in Exhibit 1 hereof, to the Company at its principal office, specifying the number of Option Shares to be purchased and accompanied by payment in full of the aggregate purchase price for the Shares. Only full Shares shall be delivered and any fractional share which might otherwise be deliverable upon exercise of an Option granted hereunder shall be forfeited.

(ii) The purchase price shall be payable in cash or
its equivalent.

(iii) Upon receipt of such notice and payment, the Company, within three (3) business days after Exercise, shall deliver or cause to be delivered a certificate or certificates representing the Shares with respect to which the Option is exercised. The certificate or certificates for such Shares shall be registered in the name of the person exercising the Option (or, if the Employee shall so request in the notice exercising the Option, in the name of the Employee and his spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person exercising the Option. In the event the Option is exercised by any person after the death or Legal Disability of the Employee, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. All Shares purchased upon the exercise of the Option as provided herein shall be fully paid and nonassessable by the Company.

(e) Non-transferability of Option. The Option is not assignable or transferable, in whole or in part, by the Employee, otherwise than by will or by the laws of descent and distribution. During the lifetime of the Employee, the Option shall be exercisable only by the Employee or, in the event of his Legal Disability, by his legal representative.

(f) Withholding of Taxes. The obligation of the Company to deliver Shares upon the exercise of any Option shall be subject to any applicable federal, state and local tax withholding requirements.

(g) Adjustments. The number of Option Shares and the Option Price shall be adjusted as set forth herein:

(i) In the event that a stock dividend shall be declared on the Common Stock payable in shares of the Common Stock, the Option Shares shall be adjusted by adding to each Option Share the number of shares which would be distributable thereon if such Option Share had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend.

(ii) In the event that the outstanding shares of the Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company whether through recapitalization, stock split, combination of shares, or otherwise, then there shall be substituted for each Option Share the number and kind of shares of stock or the securities into which each outstanding share of the Common Stock shall be so changed or for which
each such share shall be exchanged.

(iii) In the event that the outstanding shares of the Common Stock shall be changed into or exchanged for shares of stock or other securities of another corporation, whether through reorganization, sale of assets, merger or consolidation in which the Company is the surviving corporation, then there shall be substituted for each Option Share the number and kind of shares of stock or the securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchanged.

(iv) In the event that any sale of shares of Common Stock (except any such sale made pursuant to any right, option, warrant or convertible security outstanding prior to the date of this Agreement), or the issuance of any rights, options, or warrants to subscribe for or purchase Common Stock (or securities convertible into or exchangeable for Common Stock) occurs after the date of this Agreement, which sale or issuance, in the aggregate, will increase the number of shares of Common Stock outstanding during the Term by Forty percent (40%), then, upon each such sale or issuance, the Employee shall be issued additional Option Shares such that, when the additional Option Shares are aggregated with the Option Shares heretofore owned by the Employee, the Employee has the right to purchase, at the same times set forth in paragraph 4(c), the same percentage of Common Stock at the same price per share as the Employee maintained prior to such sale or issuance.

(h) Share Ownership. Neither the Employee nor the Employee's legal representatives nor the executors or administrators of his estate shall be or be deemed to be the holder of any share of Common Stock covered by an Option unless and until a certificate for such share shall have been issued.

3.4 Fringe-Benefits. The Employee shall be entitled to participate in all bonus and benefit programs that the Company establishes and makes available to its employees, if any, to the extent that the Employee's position, tenure, salary, age, health and other qualifications make him eligible to participate. The Employee shall also be entitled to holidays and annual vacation leave in accordance with the Company's policy as it exists from time to time.

3.5 Reimbursement of Expenses. The Company shall reimburse the Employee for all reasonable travel, entertainment and other expenses incurred or paid by the Employee in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Employee of documentation, expense statements, vouchers and/or such other
3.6 Insurance. The Employee will be covered under the Company's Directors' and Officers' liability insurance to the same extent the Company's directors and officers are covered.

4. Employment Termination. The employment of the Employee by the Company pursuant to this Agreement shall terminate upon the occurrence of any of the following:

4.1 Expiration of the Employment Period in accordance with Section 1;

4.2 At the election of the Company, for Cause (as defined in Section 7), immediately upon written notice by the Company to the Employee, which notice of termination shall have been approved by a majority of the Board;

4.3 Immediately upon the death or determination of Legal Disability (as defined in Section 7) of the Employee;

4.4 At the election of the Employee, for Good Reason (as defined in Section 7), immediately upon written notice by the Employee to the Company;

4.5 At the election of the Employee, within twelve (12) months following a Change in Control (as defined in Section 7), immediately upon written notice by the Employee to the Company;

4.6 At the election of either party, upon not less than thirty (30) days' prior written notice of termination (the "Notice of Termination").

5. Effect of Termination.

5.1 Termination for Cause or at Election of the Employee other than for Good Reason or due to a Change in Control. If, prior to the expiration of this Agreement, the Employee's employment is terminated for Cause pursuant to Section 4.2 (except in the case where such termination occurs within 12 months following a Change in Control), or at the election of the Employee pursuant to Section 4.6 other than for Good Reason or due to a Change in Control,

(a) the Company shall pay to the Employee the base salary and benefits otherwise payable to him under Section 3 through the last day of his actual employment by the Company (the "Date of Termination");

(b) the Employee shall cease to have the right to exercise any options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company, regardless of the extent to
which they have vested, on or after the Date of Termination.

5.2 Termination by Reason of the Employee's Death or Legal Disability. If, prior to the expiration of this Agreement, the Employee's employment is terminated by the Employee's death or Legal Disability pursuant to Section 4.3,

(a) the Company shall, no later than the fifth business day following the death or determination of Legal Disability (the "Date of Termination"), pay to the Employee, or in the case of the Employee's death, to the estate of the Employee,

(i) the Employee's base salary and benefits otherwise payable to him through the Date of Termination, and

(ii) an amount equal to the greater of the aggregate base salary payments which the Employee would have received for a six-month period after the Date of Termination if such termination had not occurred, or $88,000, and

(b) all options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company which have not vested at such time but which would have vested on and prior to the next Anniversary Date shall immediately vest and become fully exercisable in accordance with their terms for a period of ninety (90) days following the Date of Termination.

5.3 Termination for Any Other Reason. If, prior to the expiration of this Agreement, the Employee's employment is terminated by the Employee for circumstances constituting Good Reason pursuant to Section 4.4 or due to a Change in Control pursuant to Section 4.5, or by the Company for any basis other than for Cause (as defined in Section 7) or for Cause pursuant to Section 4.2 if within twelve (12) months following a Change in Control, the Company shall provide the Employee with the following benefits:

(a) the Company shall pay to the Employee

(i) the Employee's base salary at the rate in effect at the time the Notice of Termination is given, benefits and all other compensation, including Employee's prorated cash performance bonus calculated by multiplying the Applicable Percentage (as defined in Section 7) by the greater of (x) the amount of the cash performance bonus awarded or paid to the Employee with respect to the Company's most recent full fiscal year for which such a bonus was awarded or paid to the Employee or (y) in the case of a Change in Control, the amount
of cash performance bonus awarded or paid to the Employee with respect to the Company's last full fiscal year prior to the Change in Control for which such a bonus was awarded or paid to the Employee, through the Date of Termination, no later than the fifth full day following the Date of Termination, plus all other amounts to which the Employee is entitled under any compensation plan of the Company at the time such payments are due and

(ii) if the Employee so elects, in lieu of his right to continue to receive deferred compensation under any deferred compensation plan of the Company then in effect, no later than the fifth full day following the Date of Termination, a lump-sum amount, in cash, equal to the deferred amounts together with any earnings credited on such amounts under such plan;

(b) the Company will pay as severance to the Employee an amount equal to the sum of

(i) the greatest of (x) the aggregate Salary payments which the Employee would have received during the balance of the Term if such termination had not occurred, (y) in the case of a Change in Control, the aggregate Salary payments which the Employee would have received during the balance of the Term based on the Employee's annual base salary in effect immediately prior to the Change in Control, or (z) an amount equal to the Employee's highest annual base salary achieved while employed by the Company, plus

(ii) the greater of (x) the amount of the cash performance bonus awarded or paid to the Employee with respect to the Company's most recent full fiscal year for which such a bonus was awarded or paid to the Employee or (y) in the case of a Change in Control, the amount of cash performance bonus awarded or paid to the Employee with respect to the Company's last full fiscal year prior to the Change in Control for which such a bonus was awarded or paid to the Employee;

(c) all options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company which have not vested at such time shall immediately vest and become fully exercisable in accordance with their terms for a period of ninety (90) days following the Date of Termination;

(d) for a one-year period after the Date of Termination, the Company shall arrange to provide the Employee with life, disability, dental, accident, travel and group health insurance benefits substantially similar to those which the Employee was receiving immediately prior to the Notice of Termination. Notwithstanding the foregoing, the Company shall not provide any benefit otherwise
receivable by the Employee pursuant to this paragraph (d) if an equivalent benefit is actually received by the Employee during the one-year period following the Date of Termination and any such benefit actually received by the Employee shall be reported to the Company; and

(e) for a six-month period after the Date of Termination, the Company shall reimburse the Employee for reasonable fees and expenses incurred by him for the purpose of locating employment in an amount mutually agreed upon by and between the Employee and the Company, including the fees and expenses of consultants and other persons retained by him for such purpose, promptly upon receipt by the Company of satisfactory evidence of payment of such fees and expenses.

5.4 No Requirement to Mitigate. The Employee shall not be required to mitigate the amount of any payment provided for herein by seeking other employment or otherwise.

5.5 Survival. The provisions of Sections 5, 6, 7, 8 and 9 shall survive the termination of this Agreement.

6. Withholding and Deductions. All payments hereunder shall be subject to withholding and to such other deductions as shall at the time of such payment be required pursuant to any income tax or other law, whether of the United States or any other jurisdiction, and, in the case of payments to the executors or administrators to the Employee's estate, the delivery to the Company of all necessary tax waivers and other documents.

7. Definitions. For purposes of this Agreement the following definitions apply:

7.1 "Cause" for termination shall mean the occurrence of any of the following circumstances:

(a) a good faith finding by the Company of the Employee’s willful breach or habitual neglect or failure to perform the material duties which he is required to perform under the terms of this Agreement, materially fails to follow the reasonable directives or policies established by or at the direction of the Board, or conducts himself in a manner materially detrimental to the interests of the Company such that the Company sustains a material loss or injury as a result thereof and such breach or failure of performance is not cured within thirty (30) days of the delivery to the Employee of written notice thereof, which notice of breach or failure of performance shall have been approved by a majority of the Board,

(b) the willful breach by the Employee of Section 8 of this Agreement or any provision of any confidentiality, invention and non-disclosure, non-competition or similar agreement between the
Employee and the Company, or

(c) the conviction of the Employee of, or the entry of a
pleading of guilty or nolo contendere by the Employee to, any crime
involving moral turpitude or any felony.

7.2 "Legal Disability" shall mean the inability of the
Employee, by reason of illness, accident or other physical or mental disability,
for a period of 120 days, whether or not consecutive, during any 360-day period,
to perform the services contemplated under this Agreement. A determination of
disability shall be made by a physician satisfactory to both the Employee and
the Company; provided, however, that if the Employee and the Company do not
agree on a physician, the Employee and the Company shall each select a physician
and these two together shall select a third physician, whose determination as to
disability shall be binding on all parties.

7.3 "Good Reason" shall mean the occurrence of any of the
following circumstances, and the Company fails to cure such circumstances within
thirty (30) days of the delivery to the Company of written notice of such
circumstances:

(a) any significant diminution in the Employee's duties
and responsibilities as in effect on the Commencement Date;

(b) any reduction in the Employee's annual compensation as in
effect on the Commencement Date or as the same may be increased from
time to time;

(c) the failure of the Company to continue in effect any
material compensation or benefit plan in which the Employee
participates as in effect on the Commencement Date, unless an equitable
arrangement (embodied in an ongoing substitute or alternative plan) has
been made with respect to such plan, or the failure by the Company to
continue the Employee's participation therein (or in such substitute or
alternative plan) on a basis not materially less favorable, both in
terms of the amount of benefits provided and the level of the
Employee's participation relative to other participants, as in effect
on the Commencement Date or the failure by the Company to award cash
bonuses to its executives in amounts substantially consistent with past
practice in light of the Company's financial performance;

(d) the failure by the Company to continue to provide the
Employee with benefits substantially similar to those enjoyed by the
Employee under any of the Company's insurance, medical, health and
accident, or disability plans in which the Employee was participating
as in effect on the Commencement Date, the taking of any action by the
Company which would directly or indirectly materially reduce any of
such benefits, or the failure by the Company to provide the Employee
with the number of paid vacation days to which he is entitled in accordance with the Company’s normal vacation policy in effect on the Commencement Date or in accordance with any agreement between the Employee and the Company existing at that time;

(e) any purported termination of the Employee’s employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 9, which purported termination shall not be effective for purposes of this Agreement.

7.4 “Change in Control” shall mean the occurrence of any of the following events:

(a) any “person,” as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company) is or becomes the “beneficial owner” (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company’s then outstanding securities;

(b) individuals who, as of the Commencement Date, constitute the Board (as of the Commencement Date, the “Incumbent Board”) cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the Commencement Date whose election, or nomination for election by the Company’s stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board;

(c) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than

(i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more
than 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or

(ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

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7.5 "Applicable Percentage" means the percentage obtained by dividing the number of full or partial months worked in the most recent fiscal year for which the Employee has not been awarded or paid a cash performance bonus by twelve.

8. Restrictive Covenants.

(a) For the purposes of this Agreement:

(i) "Proprietary Information" means all information and know-how, whether or not in writing, of a private, secret or confidential nature concerning the company's business or financial affairs, including, without limitation, inventions, products, processes, methods, techniques, formulas, compositions, compounds, projects, developments, plans, research data, clinical data, financial data, personnel data, computer programs and customer and supplier lists.

(ii) "Competing Products" means any products or processes of any person or organization other than the Company in existence or under development, which are substantially the same, may be substituted for, or applied to substantially the same end use as the products or processes that the Company is developing or has developed or commercialized during the time of the Employee's employment with the Company.

(iii) "Competing Organization" means any person or organization engaged in, or about to become engaged in, research or development, production, distribution, marketing or selling of a Competing Product.

(b) The Employee understands that information regarding the Company and its affiliates including, without limitation, Proprietary Information, is considered confidential to the Company and is of substantial commercial value to the Company. Any entrusting of such
confidential information to the Employee by the Company is done so in reliance upon the confidential relationship arising from the terms of his employment with the Company. Therefore, in consideration of his employment with the Company,

(i) the Employee will not, during or after the Employment Period, disclose any such confidential information to any person, firm, corporation, association, or other entity for any reason or purpose whatsoever, except within the scope of his duties and responsibilities in the ordinary course of business, unless ordered to do so by a court or other tribunal or government agency with jurisdiction over the subject matter and Employee;

(ii) the Employee acknowledges that he has, on or prior to the date of the Agreement, executed and delivered to the Company a Non-Disclosure Agreement (the "Confidentiality Agreement")

and the Employee hereby affirms and ratifies his obligations thereunder; and

(iii) the Employee agrees that after termination by the Company for Cause pursuant to Section 4.2 (except in the case where such termination occurs within 12 months following a Change in Control), or by the Employee pursuant to Section 4.6 other than for Good Reason or due to a Change in Control, he will not render services of any nature, directly or indirectly, to any Competing Organization in connection with any Competing Product within such geographical territory as the Company and such Competing Organization are or would be in actual competition, for a period of eighteen (18) months, commencing on the Date of Termination, provided, however, the aforementioned restrictions shall not be applicable to activities in which the Employee was, and continued to be, engaged in on the Commencement Date. The Employee understands that services rendered to such Competing Organization may have the effect of supporting actual competition in various geographic areas, and may be prohibited by this Agreement regardless of the geographic area in which such services are physically rendered. The Company may, in its sole discretion, elect to waive, in whole or in part, the obligation set forth in the previous sentence, such waiver to be effective only if given in writing by the Company.

(c) The Employee agrees that he will not, during the Employment Period and for a period of nine (9) months commencing on the Date of Termination, directly or indirectly employ, solicit for employment, or advise or recommend to any other person that they employ or solicit for employment, any person whom he knows to be an employee of the Company or any parent, subsidiary or affiliate of the Company.
(d) In the event a court of competent jurisdiction should find any provision in this Section 8 to be unfair or unreasonable, such finding shall not render such provision unenforceable, but, rather, this provision shall be modified as to subject matter, time and geographic area so as to render the entire Section valid and enforceable.

9. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown above, or at such other address or addresses as either party shall designate to the other in accordance with this Section 9.

10. Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

11. Entire Agreement. This Agreement, together with the Confidentiality Agreement, constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

12. Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Employee.

13. Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of New Jersey, without regard to its principles of conflict of laws.

14. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Company may be merged or which may succeed to its assets or business; provided, however, that the obligations of the employee are unique and personal and shall not be assigned by him.

15. Waiver of Breach.

15.1 Waiver by the Company. No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion. No waiver by the Company shall be valid unless in a writing signed by an authorized officer of the
Company and approved by an absolute majority of the Board.

15.2 Waiver by the Employee. No delay or omission by the Employee in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Employee on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion. No waiver by the Employee shall be valid unless in a writing signed by the Employee.


16.1 The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

16.2 In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall be no way be affected or impaired thereby.

IN WITNESS WHEREOF, the parties hereto have executed this Agreement as an instrument under seal as of the day and year set forth above.

PALATIN TECHNOLOGIES, INC.

By: /s/ Edward J. Quilty

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

EMPLOYEE

/s/ Carl Spana

--------------------------
Carl Spana
EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), made this 9th day of October, 1998, is entered into by Palatin Technologies, Inc., a Delaware corporation with its principal place of business at 214 Carnegie Center, Suite 100, Princeton, New Jersey 08540 (the "Company"), and Stephen T. Wills, residing at 13 Highview Lane, Yardley, Pennsylvania 19067 (the "Employee").

The Company desires to employ the Employee, and the Employee desires to be employed by the Company. In consideration of the mutual covenants and promises contained herein, and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged by the parties hereto, the parties agree as follows:

1. Term of Employment. The Company hereby agrees to employ the Employee, and the Employee hereby accepts employment with the Company, upon the terms set forth in this Agreement, for the period commencing on September 11, 1998 (the "Commencement Date") and ending on September 10, 2001 (such period, as it may be extended, the "Employment Period"), unless sooner terminated in accordance with the provisions of Section 4.

2. Title; Capacity.

2.1 The Employee shall serve as Executive Vice President and Chief Financial Officer or in such other position as the Company or its Board of Directors (the "Board") may determine from time to time, with powers and duties as may be determined, from time to time, by the Board. The Employee shall be based at the Company's headquarters in Princeton, New Jersey.

2.2 The Employee hereby accepts such employment and agrees to undertake the duties and responsibilities inherent in such position and such other duties and responsibilities as the Board or its designee shall from time to time reasonably assign to him. The Employee agrees to devote as much of his business time, attention and energies to the business and interests of the Company during the Employment Period as may be reasonably necessary to adequately perform his duties hereunder, provided, however, that the Company recognizes that the Employee serves as the Chief Financial Officer of Derma Sciences, Inc., a publicly traded biopharmaceutical company and that such service does not present a conflict of interest with the Employee's employment with the Company insofar as Derma Sciences, Inc. is not a Competing Organization (as defined in Section 8). Nothing contained herein shall be deemed to restrict the Employee's right to continue in such a capacity. The Employee agrees to abide by the rules, regulations, instructions, personnel practices and policies of the Company and any changes therein which may be adopted from time to time by the Company. The Employee acknowledges receipt of copies of all such rules and policies committed to writing as of the date of this Agreement.

3. Compensation and Benefits. During the Employment Period, unless sooner terminated in accordance with the provisions of Section 4, the Employee shall receive the following compensation and benefits:
3.1 Salary. The Company shall pay the Employee, in equal semi-monthly installments or otherwise in accordance with the Company's standard payroll policies as such policies may exist from time to time, an annual base salary of $65,000. Such salary shall be subject to review thereafter, as determined by the Company's Compensation Committee and approved by the Board, on an annual basis on June 15 of each year, but the Board shall not decrease the Employee's annual base salary at any such annual review.

3.2 Cash Performance Bonus. The Company shall pay the Employee bonus compensation of up to one year's base salary (which base salary shall not be less than $65,000 per year) in an amount to be decided by the Company’s Compensation Committee and approved by the Board, payable annually, no later than March 31 of each year during the Employment Period. Such performance bonus compensation shall be based upon, inter alia, yearly objectives mutually agreed upon by and between the Employee and the Company.

3.3 Stock Options. As additional compensation for services rendered, the Company grants to the Employee the right and option to purchase all or any part of an aggregate of 50,000 shares of the Company's Common Stock (the "Option"), subject to the vesting schedule set forth in subparagraph c hereof and the adjustments set forth in subparagraph g hereof, which Option is a nonqualified stock option. The Option is in all respects limited and conditioned as provided hereunder.

(a) Purchase Price. Except as otherwise provided in subparagraph g hereof, the purchase price (the “Option Price”) of the shares covered by the Option ("Option Shares") shall be the closing price of the Company's Common Stock on the National Association of Securities Dealers Automated Quotation System (Nasdaq) on September 11, 1998, to wit: $2.50.

(b) Option Term. Except as otherwise provided herein, the Option shall expire on the first to occur of: (i) ninety (90) days following the Employee's termination of employment with the Company, or (ii) September 11, 2008.

(c) Exercise of Option.

(i) Except as otherwise provided herein, the right of the Employee to exercise the Option is conditioned upon the Employee: (A) being in the employ of the Company, whether pursuant to this Agreement or otherwise, or (B) serving as a director of the Company.

(ii) The Option shall vest (except as otherwise provided herein): (A) on the Commencement Date with respect to the first 33% of the Option Shares, (B) on the first anniversary of the Commencement Date (i.e., September 11) (the "Anniversary Date") with respect to the second 33% of the Option Shares, and (C) on the second
Anniversary Date with respect to the remaining 34% of the Option Shares.

(iii) The Option may be exercised, to the extent vested, in whole or in part, at any time or times prior to the expiration or other termination thereof.

(d) Method Of Exercising Option.

(i) The Option may be exercised by giving written notice, in form substantially as set forth in Exhibit 1 hereof, to the Company at its principal office, specifying the number of Option Shares to be purchased and accompanied by payment in full of the aggregate purchase price for the Shares. Only full Shares shall be delivered and any fractional share which might otherwise be deliverable upon exercise of an Option granted hereunder shall be forfeited.

(ii) The purchase price shall be payable in cash or its equivalent.

(iii) Upon receipt of such notice and payment, the Company, within three (3) business days after Exercise, shall deliver or cause to be delivered a certificate or certificates representing the Shares with respect to which the Option is exercised. The certificate or certificates for such Shares shall be registered in the name of the person exercising the Option (or, if the Employee shall so request in the notice exercising the Option, in the name of the Employee and his spouse, jointly, with right of survivorship) and shall be delivered as provided above to or upon the written order of the person exercising the Option. In the event the Option is exercised by any person after the death or Legal Disability of the Employee, such notice shall be accompanied by appropriate proof of the right of such person to exercise the Option. All Shares purchased upon the exercise of the Option as provided herein shall be fully paid and nonassessable by the Company.

(e) Non-transferability of Option. The Option is not assignable or transferable, in whole or in part, by the Employee, otherwise than by will or by the laws of descent and distribution. During the lifetime of the Employee, the Option shall be exercisable only by the Employee or, in the event of his Legal Disability, by his legal representative.

(f) Withholding of Taxes. The obligation of the Company to deliver Shares upon the exercise of any Option shall be subject to any applicable federal, state and local tax withholding requirements.

(g) Adjustments. The number of Option Shares and the Option
Price shall be adjusted as set forth herein:

(i) In the event that a stock dividend shall be declared on the Common Stock payable in shares of the Common Stock, the Option Shares shall be adjusted by adding to each Option Share the number of shares which would be distributable thereon if such Option Share had been outstanding on the date fixed for determining the shareholders entitled to receive such stock dividend.

(ii) In the event that the outstanding shares of the Common Stock shall be changed into or exchanged for a different number or kind of shares of stock or other securities of the Company whether through recapitalization, stock split, combination of shares, or otherwise, then there shall be substituted for each Option Share the number and kind of shares of stock or the securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchanged.

(iii) In the event that the outstanding shares of the Common Stock shall be changed into or exchanged for shares of stock or other securities of another corporation, whether through reorganization, sale of assets, merger or consolidation in which the Company is the surviving corporation, then there shall be substituted for each Option Share the number and kind of shares of stock or the securities into which each outstanding share of the Common Stock shall be so changed or for which each such share shall be exchanged.

(iv) In the event that any sale of shares of Common Stock (except any such sale made pursuant to any right, option, warrant or convertible security outstanding prior to the date of this Agreement), or the issuance of any rights, options, or warrants to subscribe for or purchase Common Stock (or securities convertible into or exchangeable for Common Stock) occurs after the date of this Agreement, which sale or issuance, in the aggregate, will increase the number of shares of Common Stock outstanding during the Term by Forty percent (40%), then, upon each such sale or issuance, the Employee shall be issued additional Option Shares such that, when the additional Option Shares are aggregated with the Option Shares heretofore owned by the Employee, the Employee has the right to purchase, at the same times set forth in paragraph 4(c), the same percentage of Common Stock at the same price per share as the Employee maintained prior to such sale or issuance.

(h) Share Ownership. Neither the Employee nor the Employee's legal representatives nor the executors or administrators of his estate shall be or be deemed to be the holder of any share of Common Stock covered by an Option unless and until a certificate for such share shall have been issued.
3.4 Fringe-Benefits. The Employee shall be entitled to participate in all bonus and benefit programs that the Company establishes and makes available to its employees, if any, to the extent that the Employee’s position, tenure, salary, age, health and other qualifications make him eligible to participate. The Employee shall also be entitled to holidays and annual vacation leave in accordance with the Company’s policy as it exists from time to time.

3.5 Reimbursement of Expenses. The Company shall reimburse the Employee for all reasonable travel, entertainment and other expenses incurred or paid by the Employee in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Employee of documentation, expense statements, vouchers and/or such other supporting information as the Company may request, provided, however, that the amount available for such travel, entertainment and other expenses may be fixed in advance by the Board.

3.6 Insurance. The Employee will be covered under the Company’s Directors’ and Officers’ liability insurance to the same extent the Company’s directors and officers are covered.

4. Employment Termination. The employment of the Employee by the Company pursuant to this Agreement shall terminate upon the occurrence of any of the following:

4.1 Expiration of the Employment Period in accordance with Section 1; 4.2 At the election of the Company, for Cause (as defined in Section 7), immediately upon written notice by the Company to the Employee, which notice of termination shall have been approved by a majority of the Board;

4.3 Immediately upon the death or determination of Legal Disability (as defined in Section 7) of the Employee;

4.4 At the election of the Employee, for Good Reason (as defined in Section 7), immediately upon written notice by the Employee to the Company;

4.5 At the election of the Employee, within twelve (12) months following a Change in Control (as defined in Section 7), immediately upon written notice by the Employee to the Company;

4.6 At the election of either party, upon not less than thirty (30) days’ prior written notice of termination (the "Notice of Termination").
5.1 Termination for Cause or at Election of the Employee other than for Good Reason or due to a Change in Control. If, prior to the expiration of this Agreement, the Employee's employment is terminated for Cause pursuant to Section 4.2 (except in the case where such termination occurs within 12 months following a Change in Control), or at the election of the Employee pursuant to Section 4.6 other than for Good Reason or due to a Change in Control,

(a) the Company shall pay to the Employee the base salary and benefits otherwise payable to him under Section 3 through the last day of his actual employment by the Company (the "Date of Termination");

(b) the Employee shall cease to have the right to exercise any options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company, regardless of the extent to which they have vested, on or after the Date of Termination.

5.2 Termination by Reason of the Employee's Death or Legal Disability. If, prior to the expiration of this Agreement, the Employee's employment is terminated by the Employee's death or Legal Disability pursuant to Section 4.3,

(a) the Company shall, no later than the fifth business day following the death or determination of Legal Disability (the "Date of Termination"), pay to the Employee, or in the case of the Employee's death, to the estate of the Employee,

(i) the Employee's base salary and benefits otherwise payable to him through the Date of Termination, and

(ii) an amount equal to the greater of the aggregate base salary payments which the Employee would have received for a six-month period after the Date of Termination if such termination had not occurred, or $32,500, and

(b) all options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company which have not vested at such time but which would have vested on and prior to the next Anniversary Date shall immediately vest and become fully exercisable in accordance with their terms for a period of ninety (90) days following the Date of Termination.

5.3 Termination for Any Other Reason. If, prior to the expiration of this Agreement, the Employee's employment is terminated by the Employee for circumstances constituting Good Reason pursuant to Section 4.4 or
due to a Change in Control pursuant to Section 4.5, or by the Company for any basis other than for Cause (as defined in Section 7) or for Cause pursuant to Section 4.2 if within twelve (12) months following a Change in Control, the Company shall provide the Employee with the following benefits:

(a) the Company shall pay to the Employee

(i) the Employee's base salary at the rate in effect at the time the Notice of Termination is given, benefits and all other compensation, including Employee's prorated cash performance bonus calculated by multiplying the Applicable Percentage (as defined in Section 7) by the greater of (x) the amount of the cash performance bonus awarded or paid to the Employee with respect to the Company's most recent full fiscal year for which such a bonus was awarded or paid to the Employee or (y) in the case of a Change in Control, the amount of cash performance bonus awarded or paid to the Employee with respect to the Company's last full fiscal year prior to the Change in Control for which such a bonus was awarded or paid to the Employee, through the Date of Termination, no later than the fifth full day following the Date of Termination, plus all other amounts to which the Employee is entitled under any compensation plan of the Company at the time such payments are due and

(ii) if the Employee so elects, in lieu of his right to continue to receive deferred compensation under any deferred compensation plan of the Company then in effect, no later than the fifth full day following the Date of Termination, a lump-sum amount, in cash, equal to the deferred amounts together with any earnings credited on such amounts under such plan;

(b) the Company will pay as severance to the Employee an amount equal to the sum of

(i) the greatest of (x) the aggregate Salary payments which the Employee would have received during the balance of the Term if such termination had not occurred, (y) in the case of a Change in Control, the aggregate Salary payments which the Employee would have received during the balance of the Term based on the Employee's annual base salary in effect immediately prior to the Change in Control, or (z) an amount equal to the Employee's highest annual base salary achieved while employed by the Company, plus

(ii) the greater of (x) the amount of the cash performance bonus awarded or paid to the Employee with respect to the Company's most recent full fiscal year for which such a bonus was awarded or paid to the Employee, through the Date of Termination, plus all other amounts to which the Employee is entitled under any compensation plan of the Company at the time such payments are due and

-12-

-13-
awarded or paid to the Employee or (y) in the case of a Change in Control, the amount of cash performance bonus awarded or paid to the Employee with respect to the Company's last full fiscal year prior to the Change in Control for which such a bonus was awarded or paid to the Employee;

(c) all options to purchase shares of capital stock of the Company previously granted to the Employee pursuant to any stock option plan or other employee benefit plan with the Company which have not vested at such time shall immediately vest and become fully exercisable in accordance with their terms for a period of ninety (90) days following the Date of Termination;

(d) for a one-year period after the Date of Termination, the Company shall arrange to provide the Employee with life, disability, dental, accident, travel and group health insurance benefits substantially similar to those which the Employee was receiving immediately prior to the Notice of Termination. Notwithstanding the foregoing, the Company shall not provide any benefit otherwise receivable by the Employee pursuant to this paragraph (d) if an equivalent benefit is actually received by the Employee during the one-year period following the Date of Termination and any such benefit actually received by the Employee shall be reported to the Company; and

(e) for a six-month period after the Date of Termination, the Company shall reimburse the Employee for reasonable fees and expenses incurred by him for the purpose of locating employment in an amount mutually agreed upon by and between the Employee and the Company, including the fees and expenses of consultants and other persons retained by him for such purpose, promptly upon receipt by the Company of satisfactory evidence of payment of such fees and expenses.

5.4 No Requirement to Mitigate. The Employee shall not be required to mitigate the amount of any payment provided for herein by seeking other employment or otherwise.

5.5 Survival. The provisions of Sections 5, 6, 7, 8 and 9 shall survive the termination of this Agreement.

6. Withholding and Deductions. All payments hereunder shall be subject to withholding and to such other deductions as shall at the time of such payment be required pursuant to any income tax or other law, whether of the United States or any other jurisdiction, and, in the case of payments to the executors or administrators to the Employee's estate, the delivery to the Company of all necessary tax waivers and other documents.

7. Definitions. For purposes of this Agreement the following definitions apply:

7.1 "Cause" for termination shall mean the occurrence of any
of the following circumstances:

(a) a good faith finding by the Company of the Employee's willful breach or habitual neglect or failure to perform the material duties which he is required to perform under the terms of this Agreement, materially fails to follow the reasonable directives or policies established by or at the direction of the Board, or conducts himself in a manner materially detrimental to the interests of the Company such that the Company sustains a material loss or injury as a result thereof and such breach or failure of performance is not cured within thirty (30) days of the delivery to the Employee of written notice thereof, which notice of breach or failure of performance shall have been approved by a majority of the Board,

(b) the willful breach by the Employee of Section 8 of this Agreement or any provision of any confidentiality, invention and non-disclosure, non-competition or similar agreement between the Employee and the Company, or

(c) the conviction of the Employee of, or the entry of a pleading of guilty or nolo contendere by the Employee to, any crime involving moral turpitude or any felony.

7.2 "Legal Disability" shall mean the inability of the Employee, by reason of illness, accident or other physical or mental disability, for a period of 120 days, whether or not consecutive, during any 360-day period, to perform the services contemplated under this Agreement. A determination of disability shall be made by a physician satisfactory to both the Employee and the Company; provided, however, that if the Employee and the Company do not agree on a physician, the Employee and the Company shall each select a physician and these two together shall select a third physician, whose determination as to disability shall be binding on all parties.

7.3 "Good Reason" shall mean the occurrence of any of the following circumstances, and the Company fails to cure such circumstances within thirty (30) days of the delivery to the Company of written notice of such circumstances:

(a) any significant diminution in the Employee's duties and responsibilities as in effect on the Commencement Date;

(b) any reduction in the Employee's annual compensation as in effect on the Commencement Date or as the same may be increased from time to time;

(c) the failure of the Company to continue in effect any material compensation or benefit plan in which the Employee participates as in effect on the Commencement Date, unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Employee's participation therein (or in such substitute or
alternative plan) on a basis not materially less favorable, both in terms of the amount of benefits provided and the level of the Employee's participation relative to other participants, as in effect on the Commencement Date or the failure by the Company to award cash bonuses to its executives in amounts substantially consistent with past practice in light of the Company's financial performance;

(d) the failure by the Company to continue to provide the Employee with benefits substantially similar to those enjoyed by the Employee under any of the Company's insurance, medical, health and accident, or disability plans in which the Employee was participating as in effect on the Commencement Date, the taking of any action by the Company which would directly or indirectly materially reduce any of such benefits, or the failure by the Company to provide the Employee with the number of paid vacation days to which he is entitled in accordance with the Company's normal vacation policy in effect on the Commencement Date or in accordance with any agreement between the Employee and the Company existing at that time;

(e) any purported termination of the Employee's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 9, which purported termination shall not be effective for purposes of this Agreement.

7.4 "Change in Control" shall mean the occurrence of any of the following events:

(a) any "person," as such term is used in Sections 13(d) and 14(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act") (other than the Company, any trustee or other fiduciary holding securities under an employee benefit plan of the Company, or any corporation owned directly or indirectly by the stockholders of the Company in substantially the same proportion as their ownership of stock of the Company) is or becomes the "beneficial owner" (as defined in Rule 13d-3 under the Exchange Act), directly or indirectly, of securities of the Company representing 40% or more of the combined voting power of the Company's then outstanding securities;

(b) individuals who, as of the Commencement Date, constitute the Board (as of the Commencement Date, the "Incumbent Board") cease for any reason to constitute at least a majority of the Board, provided that any person becoming a director subsequent to the Commencement Date whose election, or nomination for election by the Company's stockholders, was approved by a vote of at least a majority of the directors then comprising the Incumbent Board (other than an election or nomination of an individual whose initial assumption of office is in connection with an actual or threatened election contest relating to
the election of the directors of the Company, as such terms are used in Rule 14a-11 of Regulation 14A under the Exchange Act) shall be, for purposes of this Agreement, considered as though such person were a member of the Incumbent Board;

(c) the stockholders of the Company approve a merger or consolidation of the Company with any other corporation, other than

(i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior thereto continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity) more than 80% of the combined voting power of the voting securities of the Company or such surviving entity outstanding immediately after such merger or consolidation or

(ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no "person" (as hereinabove defined) acquires more than 50% of the combined voting power of the Company's then outstanding securities; or

(d) the stockholders of the Company approve a plan of complete liquidation of the Company or an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets.

7.5 "Applicable Percentage" means the percentage obtained by dividing the number of full or partial months worked in the most recent fiscal year for which the Employee has not been awarded or paid a cash performance bonus by twelve.

8. Restrictive Covenants.

(a) For the purposes of this Agreement:

(i) "Proprietary Information" means all information and know-how, whether or not in writing, of a private, secret or confidential nature concerning the company's business or financial affairs, including, without limitation, inventions, products, processes, methods, techniques, formulas, compositions, compounds, projects, developments, plans, research data, clinical data, financial data, personnel data, computer programs and customer and supplier lists.

(ii) "Competing Products" means any products or processes of any person or organization other than the Company in existence or under development, which are substantially the same, may be substituted for, or applied to substantially the same end use as the
products or processes that the Company is developing or has developed or commercialized during the time of the Employee's employment with the Company.

(iii) "Competing Organization" means any person or organization engaged in, or about to become engaged in, research or development, production, distribution, marketing or selling of a Competing Product.

(b) The Employee understands that information regarding the Company and its affiliates including, without limitation, Proprietary Information, is considered confidential to the Company and is of substantial commercial value to the Company. Any entrusting of such confidential information to the Employee by the Company is done so in reliance upon the confidential relationship arising from the terms of his employment with the Company. Therefore, in consideration of his employment with the Company,

(i) the Employee will not, during or after the Employment Period, disclose any such confidential information to any person, firm, corporation, association, or other entity for any reason or purpose whatsoever, except within the scope of his duties and responsibilities in the ordinary course of business, unless ordered to do so by a court or other tribunal or government agency with jurisdiction over the subject matter and Employee;

(ii) the Employee acknowledges that he has, on or prior to the date of the Agreement, executed and delivered to the Company a Non-Disclosure Agreement (the "Confidentiality Agreement") and the Employee hereby affirms and ratifies his obligations thereunder; and

(iii) the Employee agrees that after termination by the Company for Cause pursuant to Section 4.2 (except in the case where such termination occurs within 12 months following a Change in Control), or by the Employee pursuant to Section 4.6 other than for Good Reason or due to a Change in Control, he will not render services of any nature, directly or indirectly, to any Competing Organization in connection with any Competing Product within such geographical territory as the Company and such Competing Organization are or would be in actual competition, for a period of eighteen (18) months, commencing on the Date of Termination, provided, however, the aforementioned restrictions shall not be applicable to activities in which the Employee was, and continued to be, engaged in on the Commencement Date, including the activities provided for in Section 2.2
hereof. The Employee understands that services rendered to such Competing Organization may have the effect of supporting actual competition in various geographic areas, and may be prohibited by this Agreement regardless of the geographic area in which such services are physically rendered. The Company may, in its sole discretion, elect to waive, in whole or in part, the obligation set forth in the previous sentence, such waiver to be effective only if given in writing by the Company.

(c) The Employee agrees that he will not, during the Employment Period and for a period of nine (9) months commencing on the Date of Termination, directly or indirectly employ, solicit for employment, or advise or recommend to any other person that they employ or solicit for employment, any person whom he knows to be an employee of the Company or any parent, subsidiary or affiliate of the Company.

(d) In the event a court of competent jurisdiction should find any provision in this Section 8 to be unfair or unreasonable, such finding shall not render such provision unenforceable, but, rather, this provision shall be modified as to subject matter, time and geographic area so as to render the entire Section valid and enforceable.

9. Notices. All notices required or permitted under this Agreement shall be in writing and shall be deemed effective upon personal delivery or upon deposit in the United States Post Office, by registered or certified mail, postage prepaid, addressed to the other party at the address shown above, or at such other address or addresses as either party shall designate to the other in accordance with this Section 9.

10. Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

11. Entire Agreement. This Agreement, together with the Confidentiality Agreement, constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement.

12. Amendment. This Agreement may be amended or modified only by a written instrument executed by both the Company and the Employee.

13. Governing Law. This Agreement shall be construed, interpreted and enforced in accordance with the laws of New Jersey, without regard to its principles of conflict of laws.
14. Successors and Assigns. This Agreement shall be binding upon and inure to the benefit of both parties and their respective successors and assigns, including any corporation with which or into which the Company may be merged or which may succeed to its assets or business; provided, however, that the obligations of the employee are unique and personal and shall not be assigned by him.

15. Waiver of Breach.

15.1 Waiver by the Company. No delay or omission by the Company in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Company on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion. No waiver by the Company shall be valid unless in a writing signed by an authorized officer of the Company and approved by an absolute majority of the Board.

15.2 Waiver by the Employee. No delay or omission by the Employee in exercising any right under this Agreement shall operate as a waiver of that or any other right. A waiver or consent given by the Employee on any one occasion shall be effective only in that instance and shall not be construed as a bar or waiver of any right on any other occasion. No waiver by the Employee shall be valid unless in a writing signed by the Employee.


16.1 The captions of the sections of this Agreement are for convenience of reference only and in no way define, limit or affect the scope or substance of any section of this Agreement.

16.2 In case any provision of this Agreement shall be invalid, illegal or otherwise unenforceable, the validity, legality and enforceability of the remaining provisions shall be no way be affected or impaired thereby.
IN WITNESS WHEREOF, the parties hereto have executed this Agreement as an instrument under seal as of the day and year set forth above.

PALATIN TECHNOLOGIES, INC.

By: /s/ Edward J. Quilty

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

EMPLOYEE

/s/ Stephen T. Wills

Stephen T. Wills

EX-27.1
5
FDS -- 3 MONTHS ENDED 09/30/98

This schedule contains summary financial information extracted from financial statements for the three month period ended September 30, 1998 and is qualified in its entirety be reference to such financial statements.

Palatin Technologies, Inc.

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3-MOS
--- JUN 30 1999
--- JUL 1 1998
--- SEP 30 1998
--- 3,704,725
END PRIVACY-ENHANCED MESSAGE