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FORM 10-QSB FOR PERIOD ENDED 12/31/98

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

FORM 10-QSB

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

For the quarterly period ended December 31, 1998

or

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

For the transition period from __________ to __________

Commission file number 0-22686

PALATIN TECHNOLOGIES, INC.
(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 February 9, 1999, 5,802,535 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
(unaudited)


ASSETS

Current assets:
- Cash and cash equivalents, including restricted cash of $185,000   $  2,153,266   $  4,511,187
- Prepaid expenses and other                                      178,845         277,765

Total current assets                                                2,332,111       4,788,952

Fixed assets, net of accumulated depreciation and amortization
-of $564,152 and $454,705, respectively                           1,517,772       1,610,117
- Intangibles, net of accumulated amortization of $122,023 and
  $116,247, respectively                                         70,223          76,000

$  3,920,106   $  6,475,069

LIABILITIES AND STOCKHOLDERS' EQUITY
Current liabilities:
- Accounts payable $711,278 $461,546
- Accrued expenses 1,128,363 1,134,388
- Current portion of long-term debt 445,541 939,588
- Total current liabilities 2,285,182 2,535,522

Deferred license revenue 550,000

Commitments and contingencies (Note 4)

Stockholders' equity:
- Preferred stock of $.01 par value - authorized 10,000,000 shares; Series A
  - Convertible: 71,501 and 88,329 shares issued and outstanding
    as of December 31, 1998 and June 30, 1998, respectively; 715 883
  - Series B Convertible: 17,925 and 18,875 shares issued and outstanding
    as of December 31, 1998 and June 30, 1998; respectively; 179 189
- Common stock of $.01 par value - authorized 75,000,000 shares;
  - Issued and outstanding 5,123,704 and 4,099,623 shares as of
    December 31, 1998 and June 30, 1998, respectively; 51,237 40,996
- Additional paid-in capital 29,893,798 26,610,101
- Warrants 573,537 573,537
- Unamortized deferred compensation (409,855) (516,179)
- Deficit accumulated during development stage (28,474,687) (23,319,980)
- Total stockholder's equity 1,634,924 3,389,547

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

<table>
<thead>
<tr>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants and contracts</td>
<td>$</td>
<td>$</td>
<td>$33,967</td>
<td>3,244,652</td>
<td></td>
</tr>
<tr>
<td>License fees and royalties</td>
<td>550,000</td>
<td>550,000</td>
<td>1,294,296</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Product</td>
<td></td>
<td></td>
<td>318,917</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>550,000</td>
<td>550,000</td>
<td>33,967</td>
<td>4,797,865</td>
<td></td>
</tr>
</tbody>
</table>

## Operating Expenses:

<table>
<thead>
<tr>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Research and development</td>
<td>2,205,272</td>
<td>1,474,070</td>
<td>4,342,863</td>
<td>2,863,848</td>
<td>19,260,970</td>
</tr>
<tr>
<td>General and administrative</td>
<td>543,174</td>
<td>799,379</td>
<td>1,389,464</td>
<td>1,479,616</td>
<td>11,933,064</td>
</tr>
<tr>
<td>Restructuring charge</td>
<td></td>
<td></td>
<td></td>
<td>284,000</td>
<td></td>
</tr>
<tr>
<td>Net intangibles write down</td>
<td></td>
<td></td>
<td></td>
<td>259,334</td>
<td></td>
</tr>
<tr>
<td><strong>Total operating expenses</strong></td>
<td>2,748,446</td>
<td>2,273,449</td>
<td>5,732,327</td>
<td>4,343,464</td>
<td>31,737,368</td>
</tr>
</tbody>
</table>

## Other Income (Expenses):

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Interest income</td>
<td>25,004</td>
<td>122,879</td>
<td>85,220</td>
<td>268,758</td>
<td>861,379</td>
</tr>
<tr>
<td>Interest expense</td>
<td>(23,601)</td>
<td>(48,656)</td>
<td>(57,600)</td>
<td>(124,179)</td>
<td>(1,702,593)</td>
</tr>
<tr>
<td>Placement agent commissions and fees on debt offering</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(168,970)</td>
</tr>
<tr>
<td>Merger costs</td>
<td></td>
<td></td>
<td></td>
<td>(525,000)</td>
<td></td>
</tr>
<tr>
<td><strong>Total other (expenses)</strong></td>
<td>1,403</td>
<td>74,223</td>
<td>27,620</td>
<td>144,579</td>
<td>(1,535,184)</td>
</tr>
</tbody>
</table>

## Net Loss

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Net loss</strong></td>
<td>(2,197,043)</td>
<td>(2,199,226)</td>
<td>(5,154,707)</td>
<td>(4,164,918)</td>
<td>(28,474,687)</td>
</tr>
</tbody>
</table>

## Preferred Stock Dividend

<p>| | | | | | |</p>
<table>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Preferred stock dividend</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>(3,121,525)</td>
</tr>
</tbody>
</table>

## Net Loss Attributable to Common Stockholders

<table>
<thead>
<tr>
<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Basic and diluted net loss per common share</strong></td>
<td>$0.46</td>
<td>$0.72</td>
<td>$1.11</td>
<td>$1.37</td>
<td>$32.59</td>
</tr>
</tbody>
</table>

## Weighted Average Number of Common Shares

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td><strong>Weighted average number of common shares outstanding used in computing basic and diluted net loss per common share</strong></td>
<td>4,745,953</td>
<td>3,044,695</td>
<td>4,624,021</td>
<td>3,038,695</td>
<td>969,462</td>
</tr>
</tbody>
</table>

The accompanying notes to the consolidated financial statements
CASH FLOWS FROM OPERATING ACTIVITIES:

<table>
<thead>
<tr>
<th>Description</th>
<th>1998</th>
<th>1997</th>
<th>1998 Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>(5,154,707)</td>
<td>(4,164,918)</td>
<td>(28,474,687)</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>115,223</td>
<td>87,918</td>
<td>719,877</td>
</tr>
<tr>
<td>License fee</td>
<td></td>
<td></td>
<td>500,000</td>
</tr>
<tr>
<td>Interest expense on note payable</td>
<td></td>
<td></td>
<td>72,691</td>
</tr>
<tr>
<td>Accrued interest on long-term financing</td>
<td></td>
<td></td>
<td>796,938</td>
</tr>
<tr>
<td>Accrued interest on short-term financing</td>
<td></td>
<td></td>
<td>7,936</td>
</tr>
<tr>
<td>Intangibles and equipment write down</td>
<td></td>
<td></td>
<td>278,318</td>
</tr>
<tr>
<td>Equity and notes payable issued for expenses</td>
<td></td>
<td></td>
<td>623,688</td>
</tr>
<tr>
<td>Settlement with consultant</td>
<td></td>
<td></td>
<td>(28,731)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(550,000)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>425,984</td>
<td>380,147</td>
<td>2,553,677</td>
</tr>
<tr>
<td>Changes in certain operating assets and liabilities:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td></td>
<td>84,562</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>(98,920)</td>
<td>(66,430)</td>
<td>(376,696)</td>
</tr>
<tr>
<td>Intangibles</td>
<td></td>
<td>(11,250)</td>
<td>(445,709)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>249,732</td>
<td>(75,285)</td>
<td>710,378</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(6,025)</td>
<td>(587,599)</td>
<td>668,096</td>
</tr>
</tbody>
</table>

Net cash used for operating activities: (5,008,713) (4,352,855) (22,395,105)

CASH FLOWS FROM INVESTING ACTIVITIES:

- Purchases of property and equipment                                     (17,101)   (821,341)  (2,137,264)

CASH FLOWS FROM FINANCING ACTIVITIES:

- Proceeds from notes payable, related party                               302,009
- Payments on notes payable, related party                                  (309,936)
- Proceeds from senior bridge notes payable                                1,850,090
- Payments on senior bridge notes                                          (1,850,090)
- Proceeds from notes payable and long-term debt                           1,951,327
- Payments on notes payable and long-term debt                             (1,863,834)
- Proceeds from paid-in capital from common stock warrants                 100,000
Proceeds from common stock, stock option issuances, net  3,161,940  8,435  13,297,419
Proceeds from preferred stock, net  --  --  13,210,326
Purchase of treasury stock  --  --  (1,667)

Net cash provided by (used for) financing activities  2,667,893  (487,749)  26,685,635

Net increase (decrease) in cash and cash equivalents  (2,357,921)  (5,661,945)  2,153,266

Cash and cash equivalents, beginning of period  4,511,187  12,806,717  --

Cash and cash equivalents, end of period  $ 2,153,266  $ 7,144,772  $ 2,153,266

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 $5,154,707 for the six months ended December 31, 1998 and has a deficit accumulated during development stage of $28,474,687. 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.

The Company expects that its existing capital resources, including funds received in February 1999 (see Note 7), will be adequate to fund the Company's projected operations through May 31, 1999. The Company is actively seeking additional funds through equity or debt financing, strategic alliances with corporate partners and others, and 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.

(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 December 31, 1998 and June 30, 1998, and the results of operations for the three and six month periods ended December 31, 1998 and 1997 and for the period from inception (January 28, 1986) to December 31, 1998 and June 30, 1998, and cash flows for the six months ended December 31, 1998 and 1997, and for the period from inception (January 28, 1986) to December 31, 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 six months ended December 31, 1998 and 1997 and for the period from inception (January 28, 1986) through December 31, 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 2,228,640 shares of common stock at prices ranging from $0.20 to $360 per share were outstanding at December 31, 1998. In accordance with the provisions of SFAS 128, EPS for prior periods have been restated.

(4) COMMITMENTS AND CONTINGENCIES:

Consulting Agreements - The Company is obligated under four consulting agreements to make payments totaling $200,800 in fiscal 1999.

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

(5) STOCKHOLDERS' EQUITY:

On December 31, 1998, the Company sold securities consisting of 287,500 shares of common stock ("Shares"), with each Share including a detachable five-year non-redeemable warrant ("Warrants"), through a private placement to accredited investors for gross proceeds of $1,150,000. Each Warrant entitles the purchaser to purchase one share of common stock at $4.375. The net proceeds of approximately $1,000,000 will be used for working capital and the Company's research and development programs.

(6) LICENSING FEES AND ROYALTIES:

The Company recognized $550,000 in license fees as revenue during the quarter
ended December 31, 1998 related to its termination of a license option agreement with Nihon Medi-Physics ("Nihon"). This $550,000 was previously reported as deferred license revenue. See Part II, Item 5, Other Information.

(7) SUBSEQUENT EVENTS:

On February 8, 1999, the Company sold securities consisting of 651,750 Shares, with each share including a Warrant entitling the purchaser to purchase one share of common stock at $4.70, through a private placement to accredited investors for gross proceeds of $2,607,000. The net proceeds of approximately $2,350,000 will be used for working capital and the Company's research and development programs.

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
RESULTS OF OPERATIONS


Grants and contracts - There was no revenue from grants and contracts during the three and six month period ended December 31, 1998 and three month period ended December 31, 1997, compared to $33,967 from grants in the six month period ended December 31, 1997. The Company recognized $550,000 in license fees as revenue during the quarter ended December 31, 1998 related to its termination of a license option agreement with Nihon Medi-Physics. This $550,000 was previously reported as deferred license revenue. During the six month period ended December 31, 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 and six month periods ended December 31, 1998 and December 31, 1997. During the fiscal year ended June 30, 1997, the Company discontinued the manufacture and sale of RhoChek, the sole product sold by the Company, due to insufficient sales.

Research and development - Research and development expenses increased to $2,205,272 for the three month period ended December 31, 1998 compared to $1,474,070 for the three month period ended December 31, 1997, and increased to $4,342,863 for the six month period ended December 31, 1998 compared to $2,863,848 for the six month period ended December 31, 1997. The Company substantially increased research and development spending, primarily relating to development of the Company's 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 on the LeuTech product and expands efforts to develop PT-14 and MIDAS technology.

General and administrative - General and administrative expenses decreased to $543,174 for the three month period ended December 31, 1998 compared to $799,379 for the three month period ended December 31, 1997 and expenses decreased to $1,389,464 for the six month period ended December 31, 1998 compared to $1,479,616 for the six month period ended December 31, 1997. The decrease in general and administrative expenses were mainly attributable to the continuous efforts of management to control administrative expenses such as salaries and out-source consulting fees in addition to the aggressive pursuit of price negotiations and discounts.

Interest income - Interest income decreased to $25,004 for the three month period ended December 31, 1998 compared to $122,879 for the three month period ended December 31, 1997 and interest income decreased to $85,220 for the six
month period ended December 31, 1998 compared to $268,758 for the six month period ended December 31, 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 $23,601 for the three month period ended December 31, 1998 compared to $48,656 for the three month period ended December 31, 1997 and interest expense decreased to $57,600 for the six month period ended December 31, 1998 compared to $124,179 for the six month period ended December 31, 1997. The decrease in interest expense 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 $2,197,043 and $5,154,707 for the three and six month periods ended December 31, 1998 compared to $2,199,226 and $4,164,918 for the three and six month periods ended December 31, 1997.

LIQUIDITY AND CAPITAL RESOURCES

Since its inception, the Company has incurred net operating losses and as of December 31, 1998, had a deficit accumulated during development stage of $28,474,687. The Company has financed its net operating losses through December 31, 1998 by a series of debt and equity financings. At December 31, 1998, the Company had cash and cash equivalents of $2,153,266.

For the six months ended December 31, 1998, the net decrease in cash amounted to $2,357,921. Cash used for operating activities was $5,008,713, net cash used for investing activities was $17,101 and cash provided by financing activities was $2,667,893.

In the six months ended December 31, 1998, the Company completed private placements totaling 651,136 shares of common stock of the Company, together with detachable, five-year non-redeemable warrants to purchase an additional 287,500 shares of common stock at $4.375, for gross proceeds of $3,150,000 and net proceeds of approximately $3,000,000. The net proceeds will be used for working capital and the Company's research and development of the LeuTech product and an oral dosage form of PT-14.

On February 8, 1999, the Company sold securities consisting of 651,750 shares of common stock and detachable, five-year non-redeemable warrants to purchase an additional 651,750 shares of common stock at $4.70. The Company realized gross proceeds of $2,607,000 and net proceeds of approximately $2,350,000. The net proceeds will be used for working capital and the Company's research and development programs.

On December 29, 1998, the Company and Nihon terminated the existing license option agreement between them, and entered into a letter of intent relating to development of diagnostic and therapeutic radiopharmaceutical products based on the Company's MIDAS peptide technology. The letter provides for certain up-front payments, together with certain milestone-based payments to be made at later dates. The Company anticipates entering into a definitive agreement in the first quarter of 1999. There can be no assurance that the Company and Nihon will ever enter into a definitive agreement, that additional payments provided for in the 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 and 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 operations through May 31, 1999. The Company is actively seeking 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 is in the process of conducting a review of all hardware and software throughout the organization. With this review the Company will be better able to measure the scope of effort needed to ensure that all departmental operations will continue to function as of January 1, 2000. With approximately 20 stand-alone personal computers the Company believes that it does not have significant year 2000 issues related to its computerized information 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. Since the Company is not heavily dependent on any particular software package or vendor in its operations, the Company's assessment of these year 2000 issues related to its suppliers and contractors is minimal.

The Company currently believes that costs of addressing these issues will not have a material adverse impact on the Company's financial position and plans to devote all resources required to resolve any significant year 2000 issues in a timely manner.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS.

None.

ITEM 2. CHANGES IN SECURITIES AND USE OF PROCEEDS.

As of December 31, 1998, the Company sold securities consisting of 287,500 shares of unregistered common stock ("Shares"), with each Share including a detachable five-year non-redeemable warrant ("Warrants"), through a private placement, for gross proceeds of $1,150,000. Each Warrant entitles the purchaser
purchase one share of common stock at $4.375 per share. The Company paid
commissions of $92,000 in connection with the sale of the securities. The net
proceeds of the offering, approximately $1,000,000, will be used for working
capital and the Company’s research and development programs. The securities
were sold to accredited investors, pursuant to Rule 506 of Regulation D
(“Regulation D”) promulgated under the Securities Act of 1933, as amended
(“Securities Act”). The investors represented to the Company that they were
purchasing the securities on their own account for investment and not with a
view toward resale or distribution to others. The certificates representing the
Shares and Warrants bear restrictive legends. The Company has agreed to
undertake to file a registration statement under the Securities Act, registering
the Shares and common stock underlying the Warrants.

As of February 8, 1999 (the final closing of the private placement), the Company
sold securities consisting of 651,750 Shares with Warrants, with the Warrants
exercisable at $4.70 per share, for gross proceeds of $2,607,000. The Company
paid commissions of $222,000 and agreed to issue warrants to purchase 51,000
shares of common stock at $5.17 per share in connection with the sale of the
securities. The net proceeds of the offering, approximately $2,350,000, will be
used for working capital and the Company’s research and development programs.
The securities were sold to accredited investors, pursuant to Regulation D. The
investors represented to the Company that they were purchasing the securities on
their own account for investment and not with a view toward resale or
distribution to others. The certificates representing the Shares and Warrants
bear restrictive legends. The Company has agreed to undertake to file a
registration statement under the Securities Act, registering the Shares and
common stock underlying the Warrants.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES.

None.

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

None.

ITEM 5. OTHER INFORMATION.

On December 2, 1998, the Company announced that Charles L. Putnam, 45, and
Robert K. deVeer, Jr., 52, had been appointed to its Board of Directors,
increasing the size of the Board to eight. Mr. Putnam is an Executive Vice
President and Chief Operating Officer of the Company. Mr. deVeer is currently
President of deVeer Capital. From 1973 to 1995, Mr. deVeer was with CS First
Boston of New York, holding positions including Managing Director, Head of
Project Finance, Head of Industrials and Head of Natural Resources, and a member
of the Investment Banking Committee. Mr. deVeer received a B.A. degree in
Economics from Yale University and an M.B.A. in finance from Stanford
University.

On December 29, 1998, the Company announced that its license option agreement
with Nihon had been terminated based on the determination of the Company and
Nihon to change the development emphasis under the license option agreement. The
Company also announced that a letter of intent was entered into with Nihon
relating to development of diagnostic and therapeutic radiopharmaceutical
products, as described in Part I, Item 2, Management’s Discussion and Analysis
of Financial Condition and Results of Operation.
On February 4, 1999, the Company announced that it had initiated Phase 2 clinical trials of its LeuTech infection imaging agent for diagnosis of bone infections known as osteomyelitis at four sites in the United States.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K.
(A) EXHIBITS
10.41 Form of Purchase Agreement and Amendment No. 1 dated as of December 31, 1998.
10.42 Form of Registration Rights Agreement dated as of December 31, 1998.
27.1 Financial Data Schedule
(B) REPORTS ON FORM 8-K
The Company filed no reports on Form 8-K during the three months ended December 31, 1998.

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

PALATIN TECHNOLOGIES, INC.
(Registrant)

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

/s/ Stephen T. Wills
________________________
Date: February 16, 1998 Stephen T. Wills
Vice President and Chief Financial
Officer (Principal Financial and
Accounting Officer)
THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

____

____ Warrants

PALATIN TECHNOLOGIES, INC.
COMMON STOCK PURCHASE WARRANT CERTIFICATE

THE WARRANTS EVIDENCED BY THIS CERTIFICATE ARE NOT EXERCISABLE AFTER 5:00 P.M., NEW YORK CITY TIME, ON December 31, 2003

THIS CERTIFIES THAT ________________________ or registered assigns is the registered holder (the "Registered Holder") of the number of Warrants set forth above, each of which represents the right to purchase one fully paid and non-assessable share of Common Stock, par value $0.01 per share (the "Common Stock"), of Palatin Technologies, Inc., a Delaware corporation (the "Company"), at the initial exercise price of $4.375 per Warrant (the "Exercise Price") at any time after the date on which the shares of Common Stock issuable upon exercise of the Warrants evidenced hereby have been registered under the Securities Act of 1933, as amended, or such other action as may be required by federal or state law relating to the issuance or distribution of securities shall have been taken, and prior to the Expiration Date (as hereinafter defined), by surrendering this Warrant Certificate, with the Form of Election to Purchase duly executed at the principal office of the Company and by paying in
full the Exercise Price, plus transfer taxes, if any. Payment of the Exercise Price shall be made in United States currency, by certified check or money order payable to the order of the Company. Unless otherwise defined herein, the capitalized terms used herein shall have the meaning assigned to such terms in the Purchase Agreement.

The Warrants have been issued pursuant to a private placement of Common Stock and Warrants.

This Warrant Certificate is issued under and in accordance with the Purchase Agreement dated as of December 31, 1998, between the Company and the Registered Holder, as amended and is subject to the terms and provisions contained in said Purchase Agreement. The Registration Rights Agreement between the Company and the Registered Holder governs the registration rights of the shares of Common Stock underlying the Warrants.

**EXERCISE OF WARRANTS**

Issuance of Common Stock. As soon as practicable after the date of exercise of any Warrants, the Company shall issue, or cause the transfer agent for the Common Stock, if any, to issue a certificate or certificates for the number of full shares of Common Stock to which such Registered Holder is entitled, registered in accordance with the instructions set forth in the Form of Election to Purchase. All shares of Common Stock issued upon the exercise of any Warrants shall be validly authorized and issued, fully paid and non-assessable, and free from all taxes, liens and charges created by the Company in respect of the issue thereof. Each person in whose name any such certificate for shares of Common Stock is issued shall for all purposes be deemed to have become the holder of record of the Common Stock represented thereby on the date of exercise of the Warrants resulting in the issuance of such shares, irrespective of the date of issuance or delivery of such certificate for shares of Common Stock.

Certificates for Unexercised Warrants. In the event that less than all of the Warrants represented by a Warrant Certificate are exercised, the Company shall execute and mail, by first-class mail, within 30 days of the date of exercise, to the Registered Holder of such Warrant Certificate, or such other person as shall be designated in the Form of Election to Purchase, a new Warrant Certificate representing the number of full Warrants not exercised. In no event shall a fraction of a Warrant be exercised, and the Company shall distribute no Warrant Certificates representing fractions of Warrants. Final fractions of shares shall be treated as provided for herein.

Reservation of Shares. The Company shall at all times reserve and keep available for issuance upon the exercise of Warrants a number of its authorized but unissued shares of Common Stock that will be sufficient to permit the exercise in full of all outstanding Warrants.
Adjustment of Exercise Price. Subject to the provisions hereof, the Exercise Price in effect from time to time shall be subject to adjustment, as follows:

(a) In case the Company shall at any time after the date hereof (i) declare a dividend on the outstanding Common Stock payable in shares of its capital stock, (ii) subdivide the outstanding Common Stock, (iii) combine the outstanding Common Stock into a smaller number of shares, or (iv) issue any shares of its capital stock by reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then, in each case, the Exercise Price, and the number of shares of Common Stock issuable upon exercise of the Warrants in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination, or reclassification, shall be proportionately adjusted so that the Holders of the Warrants after such time shall be entitled to receive the aggregate number and kind of shares which, if such Warrants had been exercised immediately prior to such time, such Registered Holders would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur.

(b) In case the Company shall issue or fix a record date for the issuance to all holders of Common Stock of rights, options, or warrants to subscribe for or purchase Common Stock (or securities convertible into or exchangeable for Common Stock) at a price per share (or having a conversion or exchange price per share, if a security convertible into or exchangeable for Common Stock) less than the Current Market Price per share of Common Stock (as determined below) on such record date, then, in each case, the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so to be offered (or the aggregate initial conversion or exchange price of the convertible or exchangeable securities so to be offered) would purchase at such Current Market Price and the denominator of which shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock to be offered for subscription or purchase (or into which the convertible or exchangeable securities so to be offered are initially convertible or exchangeable). Such adjustment shall become effective at the close of business on such record date; provided, however, that, to the extent the shares of Common Stock (or securities convertible into or exchangeable for shares of Common Stock) are not delivered, the Exercise Price shall be readjusted after the expiration of such rights, options, or warrants (but only with respect to Warrants exercised after such expiration), to the Exercise Price which would then be in effect had the adjustments made upon the
issuance of such rights, options, or warrants been made upon the basis of
delivery of only the number of shares of Common Stock (or securities convertible
into or exchangeable for shares of Common Stock) actually issued.
Notwithstanding anything to the contrary contained herein, no adjustment shall
be made to the Exercise Price until any condition to the vesting of such rights,
options or warrants shall be fulfilled or satisfied (and then only with respect
to the portion thereof which shall have vested). In case any subscription price
may be paid in a consideration part or all of

which shall be in a form other than cash, the value of such consideration shall
be as determined in good faith by the board of directors of the Company, whose
determination shall be conclusive absent manifest error. Shares of Common Stock
owned by or held for the account of the Company or any majority-owned subsidiary
shall not be deemed outstanding for the purpose of any such computation.

(c) In case the Company shall distribute to all holders of Common Stock
(including any such distribution made to the stockholders of the Company in
connection with a consolidation or merger in which the Company is the continuing
corporation) evidences of its indebtedness, cash (other than any cash dividend
which, together with any cash dividends paid within the twelve (12) months prior
to the record date for such distribution, does not exceed 5% of the Current
Market Price at the record date for such distribution) or assets (other than
distributions and dividends payable in shares of Common Stock), or rights,
options, or warrants to subscribe for or purchase Common Stock, or securities
convertible into or exchangeable for shares of Common Stock (excluding those
with respect to the issuance of which an adjustment of the Exercise Price is
provided pursuant to the foregoing paragraph), then, in each case, the Exercise
Price shall be adjusted by multiplying the Exercise Price in effect immediately
prior to the record date for the determination of stockholders entitled to
receive such distribution by a fraction, the numerator of which shall be the
Current Market Price per share of Common Stock on such record date, less the
fair market value (as determined in good faith by the board of directors of the
Company, whose determination shall be conclusive absent manifest error) of the
portion of the evidences of indebtedness or assets so to be distributed, or of
such rights, options, or warrants or convertible or exchangeable securities, or
the amount of such cash, applicable to one share, and the denominator of which
shall be such Current Market Price per share of Common Stock. Such adjustment
shall become effective at the close of business on such record date.

Current Market Price. For the purpose of any computation under this
Warrant, the Current Market Price per share of Common Stock on any date shall be
deemed to be the average of the daily closing prices for the fifteen (15)
consecutive trading days immediately preceding the date in question. The closing
price for each day shall be (a) the last reported sales price regular way or, in
case no such reported sale takes place on such day, the closing bid price
regular way, in either case on the principal national securities exchange or
market system (including, for purposes hereof, the NASDAQ National Market System
or the NASDAQ SmallCap) on which the Common Stock, is listed or admitted to
trading, (b) if the Common Stock, is not listed or admitted to trading on any
national securities exchange or market system, the highest reported bid price
for the Common Stock, as furnished by the National Association of Securities Dealers, Inc. through NASDAQ or a similar organization if NASDAQ is no longer reporting such information, or (c) if on any such date the Common Stock is not listed or admitted to trading on any national securities exchange and is not quoted by NASDAQ National Market System or NASDAQ SmallCap System or any similar organization, as determined by reference to the "pink sheets" published by the National Quotation Bureau or, if not so published, by such other method of determining the market value of a share of Common Stock, as the board of directors of the Company shall in good faith from time to time deem to be fair, whose determination shall be conclusive absent manifest error shall be used.

No Adjustments to Exercise Price. No adjustment in the Exercise Price shall be required if such adjustment is less than $.05; provided, however, that any adjustments which by reason of this Warrant are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Warrant shall be made to the nearest cent or to the nearest one thousandth of a share, as the case may be.

Deferral of Adjustments to Exercise Price. In any case in which this Warrant shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer, until the occurrence of such event, issuing to the Registered Holders of the Warrants, if any Registered Holder has exercised a Warrant after such record date, the shares of Common Stock, if any, issuable upon such exercise over and above the shares of Common Stock, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Company shall deliver to such exercising Registered Holder a due bill or other appropriate instrument evidencing such Registered Holder's right to receive such additional shares upon the occurrence of the event requiring such adjustment.

Adjustment to Number of Shares. Upon each adjustment of the Exercise Price as a result of the calculations made above the Warrants shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of shares (calculated to the nearest thousandth) obtained by dividing (A) the product obtained by multiplying the number of shares purchasable upon exercise of the Warrants prior to adjustment of the number of shares by the Exercise Price in effect prior to adjustment of the Exercise Price by (B) the Exercise Price in effect after such adjustment of the Exercise Price.

Reorganization. In case of any capital reorganization, other than in the cases referred to above, or the consolidation or merger of the Company with or into another corporation (other than a merger or consolidation in which the Company is the continuing corporation and which does not result in any reclassification of the outstanding shares of Common Stock or the conversion of such outstanding shares of Common Stock into shares of other stock or other securities or property), or the sale of the property of the Company as an entirety or substantially as an entirety (collectively such actions being hereinafter referred to as "Reorganizations"), there shall thereafter be
deliverable upon exercise of any Warrant (in lieu of the number of shares of Common Stock theretofore deliverable) the number of shares of stock or other securities or property to which a Registered Holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of such Warrant would have been entitled upon such Reorganization if such Warrant had been exercised in full immediately prior to such Reorganization. In case of any Reorganization, appropriate adjustment, as determined in good faith by the Board of Directors of the Company, shall be made in the application of the provisions herein set forth with respect to the rights and interests of Registered Holders so that the provisions set forth herein shall thereafter be applicable, as nearly as practicable, in relation to any shares or other property thereafter deliverable upon exercise of Warrants. The Company shall not effect any such Reorganization, unless upon or prior to the consummation thereof the successor corporation, or if the Company shall be the surviving corporation in any such Reorganization and is not the issuer of the shares of stock or other securities or property to be delivered to holders of shares of the Common Stock outstanding at the effective time thereof, then such issuer, shall assume by written instrument the obligation to deliver to the Registered Holder of any Warrant Certificate such shares of stock, securities, cash or other property as such holder shall be entitled to purchase in accordance with the foregoing provisions. Notwithstanding anything to the contrary contained herein, in the event of sale or conveyance or other transfer of all or substantially all of the assets of the Company as a part of a plan for liquidation of the Company, all rights to exercise any Warrant shall terminate thirty (30) days after the Company gives written notice to each Registered Holder of a Warrant Certificate that such sale or conveyance of other transfer has been consummated.

Reclassifications. (a) In case of any reclassification or change of the shares of Common Stock issuable upon exercise of the Warrants (other than a change in par value or from no par value to a specified par value, or as a result of a subdivision or combination, but including any change in the shares into two or more classes or series of shares), the Registered Holders of the Warrants shall have the right thereafter to receive upon exercise of the Warrants solely the kind and amount of shares of stock and other securities, property, cash, or any combination thereof receivable upon such reclassification or change by a Registered Holder of the number of shares of Common Stock for which the Warrants might have been exercised immediately prior to such reclassification or change. Thereafter, appropriate provision shall be as nearly equivalent as practicable to the adjustments in this Warrant. The above provisions of this paragraph shall similarly apply to successive reclassifications and changes of shares of Common Stock.

(b) Notwithstanding anything to the contrary herein contained, in the event of a transaction contemplated by the prior paragraph in which the surviving, continuing, successor, or purchasing corporation demands that all outstanding Warrants be extinguished prior to the closing date of the contemplated transaction, the Company shall give prior notice (the “Merger Notice”) thereof to the Registered Holders advising them of such transaction.
The Registered Holders shall have ten (10) days after the date of the Merger Notice to elect to (i) exercise the Warrants in the manner provided herein or (ii) receive from the surviving, continuing, successor, or purchasing corporation, with respect to outstanding Warrants, the same consideration receivable by a Registered Holder of the number of shares of Common Stock for which the Warrants might have been exercised immediately prior to such consolidation, merger, sale, or purchase reduced by such amount of the consideration as has a market value equal to the exercise price of the Warrants, as determined by the Board of Directors of the Company, whose determination shall be conclusive absent manifest error. If any Registered Holder fails to timely notify the Company of its election, the Holder shall be deemed for all purposes to have elected the option set forth in (ii) above. Any amounts receivable by a Holder who has elected the option set forth in (ii) above shall be payable at the same time as amounts payable to stockholders in connection with any such transaction.

Verification of Computations. Whenever the Exercise Price is adjusted as provided in this Warrant, the Company will promptly obtain a certificate of the chief financial officer of the Company setting forth the Exercise Price as so adjusted and a brief statement of the facts accounting for such adjustment, and will make available a brief summary thereof to the Registered Holders of the Warrant Certificates, at their addresses listed on the register maintained for the purpose by the Company.

Exercise Price Not Less Than Par Value. In no event shall the Exercise Price be adjusted below the par value per share of the Common Stock.

Notice of Certain Actions. In case at any time the Company shall propose:

(a) to pay any dividend or make any distribution on shares of Common Stock in shares of Common Stock or make any other distribution (other than regularly scheduled cash dividends which are not in a greater amount per share than the most recent such cash dividend) to all holders of Common Stock; or

(b) to issue any rights, warrants, or other securities to all holders of Common Stock entitling them to purchase any additional shares of Common Stock or any other rights, warrants, or other securities; or

(c) to effect any reclassification or change of outstanding shares of Common Stock, or any consolidation, merger, sale, lease, or conveyance of property, described above; or

(d) to effect any liquidation, dissolution, or winding-up of the Company;

then, in each such case, the Company shall cause notice of such proposed action to be mailed to each Registered Holder of a Warrant Certificate. Such notice
shall be mailed, at least ten (10) days prior to the record date for determining
holders of the Common Stock for purposes of receiving such payment or offer or
at least ten (10) days prior to the earlier of the date upon which such action
is to take place or any record date to determine holders of Common Stock
entitled to receive such securities or other property, as the case may be.

Notice of Adjustments. Whenever any adjustment is made pursuant to this
Warrant, the Company shall cause notice of such adjustment to be mailed to each
Registered Holder of a Warrant Certificate within fifteen (15) days thereafter,
such notice to include in reasonable detail (i) the events precipitating the
adjustment, (ii) the

computation of any adjustments, and (iii) the Exercise Price, the number of
shares or the securities or other property purchasable upon exercise of each
Warrant after giving effect to such adjustment.

Warrant Certificate Amendments. Irrespective of any adjustments pursuant
to this Warrant, Warrant Certificates theretofore or thereafter issued need not
be amended or replaced, but certificates thereafter issued shall bear an
appropriate legend or other notice of any adjustments.

Fractional Shares. The Company shall not be required upon the exercise
of any Warrant to issue fractional shares of Common Stock which may result from
adjustments in accordance with this Warrant to the Exercise Price or number of
shares of Common Stock purchasable under each Warrant. If more than one Warrant
is exercised at one time by the same Registered Holder, the number of full
shares of Common Stock which shall be deliverable shall be computed based on the
number of shares deliverable in exchange for the aggregate number of Warrants
exercised. With respect to any final fraction of a share called for upon the
exercise of any Warrant or Warrants, the Company shall pay a cash adjustment in
respect of such final fraction in an amount equal to the same fraction of the
Current Market Price of a share of Common Stock calculated in accordance with
this Warrant.

Adjustments Not Provided For. If any change to the capitalization of the
Company should occur with respect to which a favorable adjustment to the rights
and interests of the Registered Holders of the Warrants should be made, and such
adjustment is not otherwise provided for in this Warrant, such appropriate
adjustment should be made as determined in good faith by the Board of Directors
of the Company.

No Warrant may be exercised after 5:00 P.M., New York City time, on the
expiration date (the "Expiration Date") which will be December 31, 2003. All
Warrants evidenced hereby shall thereafter become void.
Rights of Warrant Holders. No Warrant Certificate shall entitle the registered holder thereof to any of the rights of a stockholder of the Company, including, without limitation, the right to vote, to receive dividends and other distributions, to receive any notice of, or to attend, meetings of stockholders or any other proceedings of the Company.

Lost, Stolen, Mutilated or Destroyed Warrant Certificates. If any Warrant Certificate shall be mutilated, lost, stolen or destroyed, the Company in its discretion may execute and deliver, in exchange and substitution for and upon cancellation of a mutilated

Warrant Certificate, or in lieu of or in substitution for a lost, stolen or destroyed Warrant Certificate, a new Warrant Certificate for the number of Warrants represented by the Warrant Certificate so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such Warrant Certificate, and of the ownership thereof, and indemnity, if requested, all satisfactory to the Company. Applicants for such substitute Warrant Certificates shall also comply with such other reasonable regulations and pay such other reasonable charges incidental thereto as the Company may prescribe. Any such new Warrant Certificate shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant Certificate shall be at any time enforceable by anyone.

SPLIT UP, COMBINATION, EXCHANGE, TRANSFER, AND CANCELLATION OF WARRANT CERTIFICATES

Split Up, Combination, Exchange and Transfer of Warrant Certificates. Prior to the latest time at which the Warrants may be exercised, subject to any applicable laws, rules or regulations restricting transferability, Warrant Certificates, subject to the provisions hereof, may be split up, combined or exchanged for other Warrant Certificates representing a like aggregate number of Warrants or may be transferred in whole or in part. Any holder desiring to split up, combine or exchange a Warrant Certificate or Warrant Certificates shall make such request in writing delivered to the Company at its principal office and shall surrender the Warrant Certificate or Warrant Certificates so to be split up, combined or exchanged at said office with the Form of Assignment. Upon any such surrender for split up, combination, exchange or transfer, the Company shall execute and deliver to the person entitled thereto a Warrant Certificate or Warrant Certificates, as the case may be, as so requested in the Form of Assignment. The Company may require the holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split up, combination, exchange or transfer of Warrant Certificates prior to the issuance of any new Warrant Certificate.

Cancellation of Warrant Certificates. Any Warrant Certificate surrendered upon the exercise of Warrants or for split up, combination, exchange or transfer, or purchased or otherwise acquired by the Company, shall be canceled and shall not be reissued by the Company; and, except as otherwise
provided herein in case of the exercise of less than all of the Warrants evidenced by a Warrant Certificate or in case of a split up, combination, exchange or transfer, no Warrant Certificate shall be issued hereunder in lieu of such canceled Warrant Certificate. Any Warrant Certificate so canceled shall be destroyed by the Company.

Agreement of Warrant Certificate Holders. Every holder of a Warrant Certificate by accepting the same consents and agrees with the Company and with every other holder of a Warrant Certificate that:

   (a) transfer of the Warrant Certificates shall be registered on the books of the Company only if surrendered at the principal office of the Company, duly endorsed or accompanied by a proper instrument of transfer; and

   (b) prior to due presentment for registration of transfer, the Company may deem and treat the person in whose name the Warrant Certificate is registered as the absolute owner thereof and of the Warrants evidenced thereby (notwithstanding any notations of ownership or writing on the Warrant Certificates made by anyone other than the Company) for all purposes whatsoever, and the Company shall not be affected by any notice to the contrary.

OTHER MATTERS

Governing Law. The laws of the State of New York shall govern this Warrant Certificate.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed.

PALATIN TECHNOLOGIES, INC.

By: ______________________________
   Edward J. Quilty, Chairman and Chief Executive Officer
FORM OF
ELECTION TO PURCHASE

The undersigned hereby irrevocably elects to exercise of the Warrants represented by this Warrant Certificate and to purchase the shares of Common Stock issuable upon the exercise of said Warrants, and requests that certificates for such shares be issued and delivered as follows:

ISSUE
TO:

(NAME)

(ADDRESS, INCLUDING ZIP CODE)

(SOCIAL SECURITY OR OTHER TAX IDENTIFYING NUMBER)

DELIVER
TO:  

(NAME)
at 

(ADDRESS, INCLUDING ZIP CODE)

If the number of Warrants hereby exercised is less than all the Warrants represented by this Warrant Certificate, the undersigned requests that a new Warrant Certificate representing the number of full Warrants not exercised be issued and delivered as set forth below.

In full payment of the purchase price with respect to the Warrants exercised and transfer taxes, if any, the undersigned hereby tenders payment of $ by certified check or money order payable in United States currency to the order of the Company.

Dated: ____________________

____________________________                ______________________________
(Insert Social Security or                  (Signature of registered
Tax Identifying Number)
FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned represented by the within Warrant Certificate, with respect to the number of Warrants set forth below:

Name of Assignee          Address          No. of Warrants

and does hereby irrevocably constitute and appoint ___________________________ Attorney to make such transfer on the books of Palatin Technologies, Inc. maintained for that purpose, with full power of substitution in the premises.

Dated: ___________________, 19____.

________________________________   _________________________________
(Insert Social Security or other identifying number of holder)   Signature

(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)
# PURCHASE AGREEMENT AND AMENDMENT NO. 1

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PALATIN TECHNOLOGIES, INC.

PURCHASE AGREEMENT

This Purchase Agreement (the "Agreement") is made as of ______, 1998 by and between Palatin Technologies, Inc., a Delaware corporation (the "Company"), with its principal office at 214 Carnegie Center, Suite 100, Princeton, New Jersey 08540, and each of the purchasers who are signatories hereto and any other purchasers who are made a party to this Agreement pursuant to Section 1 (individually, a "Purchaser" and collectively, the "Purchasers").

RECITALS

The Company is hereby offering (the "Offering") a minimum of $3,000,000 and a maximum of $7,000,000 (a) shares (the "Shares") of the Company's Common Stock, $.01 par value per share (the "Common Stock") and (b) warrants (the "Warrants") to purchase one share of Common Stock of the Company. The Shares and the Warrants offered in the Offering shall sometimes collectively be referred to herein as the "Securities." The Securities will be sold by the Company to Purchasers pursuant to Regulation D ("Regulation D") promulgated under the Securities Act of 1933, as amended (the "Act").

The purchase price of the Shares to be offered in the Offering (the "Offering Price") will be determined based upon the average reported closing
sales prices for the Common Stock on The Nasdaq SmallCap Market SM for the last five (5) business days immediately prior to the Initial Closing Date (as defined below). Every one share of Common Stock purchased in the Offering will entitle the Purchaser to a Warrant to purchase one share of Common Stock at an exercise price per share equal to the Offering Price, subject to certain adjustments. The Warrants will be issued pursuant to a warrant agreement (the “Warrant Agreement”) between the Company and American Stock Transfer & Trust Company.

Each prospective purchaser has received and carefully read a copy of a private placement memorandum, dated October 2, 1998, as amended (the “Placement Memorandum”), describing the Company’s business, financial and operating condition, the Offering and information regarding risks to be evaluated when contemplating an investment in the Company through the Offering.

AGREEMENT

In consideration of the Company’s agreement to sell the Securities to the undersigned upon the terms and conditions continued herein, each Purchaser (severally and not jointly) agrees and represents as follows:

1. PURCHASE AND SALE OF SECURITIES.

1.1 Issue of Securities.

(a) The Company has authorized the issuance and sale of a minimum of $3,000,000 and a maximum of $7,000,000 of Securities pursuant to the provisions of this Agreement.

(b) Subject to the terms and conditions set forth herein, the Company hereby agrees to issue and sell to each Purchaser the aggregate amount of Shares and Warrants set forth below on the Purchaser's signature on the subscription page bearing such Purchaser's name. The Shares shall be sold at the Offering Price.

(c) Subject to the terms and conditions set forth herein, each Purchaser hereby agrees to purchase the amount of Shares and Warrants as determined on the subscription page bearing such Purchaser's name (each a "Subscription"). Each Purchaser shall severally, and not jointly, be liable only for the purchase of the amount of Shares and Warrants that appears on the subscription page hereof that relates to such Purchaser.

(d) The Company’s agreement with each Purchaser is a separate agreement and the sale of the Securities to each Purchaser is a separate sale.

2. CLOSING DATE; DELIVERY.

2.1 Closing. The Company expects to hold an initial closing of the Offering (the "Initial Closing") at any time after subscriptions for a minimum of $3,000,000 of Securities have been accepted. The final closing of the Offering (the "Final Closing Date") shall occur as soon as practicable on the date on which Subscriptions for the maximum of $7,000,000 of
Securities have been accepted by the Company. The Company may hold additional interim closings after the Initial Closing. Any such interim closing together with the Initial Closing are each hereinafter referred to as an "Interim Closing" and shall occur on one or more dates each hereinafter referred to as an "Interim Closing Date," and each, together with the Final Closing Date, are hereinafter referred to as a "Closing Date."

2.2 Delivery. On each Closing Date, subject to the terms and conditions hereof, the Company shall deliver to each Purchaser (i) stock certificates, registered in the name of the Purchaser, representing the Shares to be purchased by the Purchaser from the Company, and (ii) warrant certificates, registered in the name of the Purchaser, representing the Warrants to be granted to the Purchaser by the Company, each dated as of the relevant Closing Date, against payment of the purchase price therefor (the "Payment") by wire transfer or previously cleared check, unless other means of payment shall have been agreed upon by the Purchaser and the Company. The undersigned understands that payments by check as provided in this Paragraph 2.2 shall be delivered to Graham & James LLP as the escrow agent and, thereafter, such payment will be deposited as soon as practicable in an escrow account for the undersigned's benefit. The wire transfer shall be made to Graham & James LLP, as escrow agent in accordance with the wire transfer instructions attached as Exhibit A hereto. The Payment will be made on or prior to the relevant Closing Date. The Payment (or, in the case of the rejection of a portion of the undersigned's subscription, the part of the Payment relating to such rejected portion) will be returned promptly, without interest or deduction, on the basis described in the Memorandum, if the undersigned's subscription is rejected in whole or in part. Any Payment made by the Purchaser prior to the Initial Closing is based on an estimated price per share of Common Stock of $4.00. The Purchaser agrees to remit to the Company on the Initial Closing the balance of the Payment if the Offering Price is greater than $4.00 per share. The Company agrees to promptly remit to the Purchaser any excess Payment made by such Purchaser if the Offering Price is less than $4.00 per share. Each party hereto shall deliver or cause to be delivered at or prior to the Closing Date an executed copy of the Registration Rights Agreement between the Company and the Purchaser and the Company shall deliver to each Purchaser a fully-executed copy of the Agreement.

3. REPRESENTATIONS, WARRANTIES AND CERTAIN COVENANTS OF THE PURCHASER.

Each Purchaser hereby represents and warrants to, and agrees with, the Company as follows:

3.1 Legal Power. If this Agreement is executed and delivered on behalf of a partnership, corporation, limited liability company, trust or estate: (i) such partnership, corporation, limited liability company, trust or estate has the full legal right and power and all authority and approval required (a) to execute and deliver, or authorize execution and deliver of, this Agreement and all other instruments (including, without limitation, the Registration Rights Agreement among the Purchasers and the Company (the "Registration Rights Agreement") executed and delivered by or on behalf of such partnership, corporation, limited liability company, trust or estate in connection with the purchase of its Securities, (b) to delegate
authority pursuant to a power of attorney and (c) to purchase and hold such
Securities; (ii) the signature of the party signing on behalf of such
partnership, corporation, limited liability company, trust or estate is binding
upon such partnership, corporation, trust or estate; and (iii) such partnership,
corporation, limited liability company or trust has not been formed for the
specific purpose of acquiring such Securities, unless each beneficial owner of
such entity is qualified as an accredited investor within the meaning of Rule
501(a) of Regulation D and has submitted information substantiating such
individual qualification.

3.2 Due Execution. Each of this Agreement and the
Registration Rights Agreement (collectively, the "Operative Documents") has been
duly authorized, if Purchaser is a corporation, partnership, limited liability
company, trust or fiduciary, executed and delivered by Purchaser and, upon due
execution and delivery by the Company, the Operative Documents will be valid and
binding agreements of Purchaser, enforceable against Purchaser in accordance
with their terms, subject to applicable bankruptcy, insolvency, reorganization,
moratorium and similar laws relating to or affecting creditors' rights and
subject to general equity principles.

3.3 Investment Representations.

3.3.1 Purchaser is acquiring the Securities
for its own account, not as nominee or agent, for investment and not with a view
to or for resale in connection with any distribution or public offering thereof
within the meaning of the Act, except pursuant to an effective registration
statement under the Act.

3.3.2 Purchaser understand that (i) the
Securities have not been registered under the Act by reason of a specific
exemption therefrom, and may not be transferred or resold except pursuant to an
effective registration statement or exemption from registration and (ii) each
certificate or other document representing the Securities will be endorsed with
legends in substantially the following form:

A) THE SECURITIES REPRESENTED HEREBY HAVE NOT
BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE
"ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES
ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT
BE TRANSFERRED OR RESOLD EXCEPT AS PERMITTED UNDER THE ACT AND THE
APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR
EXEMPTION THEREFROM. THE ISSUER OF THESE SECURITIES MAY REQUIRE AN
OPINION OF COUNSEL IN FORM AND SUBSTANCE SATISFACTORY TO THE ISSUER
TO THE EFFECT THAT ANY PROPOSED TRANSFER OR RESALE IS IN COMPLIANCE
WITH THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS.

B) Any legend required to be placed thereon by
applicable federal or state securities laws;

and (iii) the Company will instruct any transfer agent not to register the
transfer of any of the Securities unless the conditions specified in the
foregoing legend are satisfied.
3.3.3 The Purchaser has been furnished with and has carefully read the Placement Memorandum (including, without limitation, all appendices and supplements thereto, and is familiar with and understands the terms of the Offering, including the rights to which the Purchaser is entitled under the Registration Rights Agreement and the Warrant Agreement). The Purchaser has been furnished with and has carefully read the Company's Quarterly Report on Form 10-QSB for the Quarter ended September 30, 1998 (the "10-Q"). In evaluating the suitability of an investment in the Company, the Purchaser has not relied upon any representation or other information (whether oral or written) from the Company, or any agent, employee or affiliate of the Company other than as set forth in the Placement Memorandum or the 10-Q and the results of Purchaser's own independent investigation. With respect to individual or partnership tax and other economic considerations involved in this investment, the Purchaser has carefully considered and has, to the extent the Purchaser believes such discussion necessary, discussed with the Purchaser's professional legal, tax, accounting and financial advisers the suitability of an investment in the Securities for the Purchaser's particular tax and financial situation and has determined that the Securities being subscribed for by the Purchaser are a suitable investment for the Purchaser.

3.3.4 The Purchaser acknowledges that (i) the Purchaser has had the right to request copies of any documents, records and books pertaining to this investment and (ii) such documents, records, and books pertaining to this investment which the Purchaser requested (including, without limitation, the Placement Memorandum) have been made available for inspection by the Purchaser, the Purchaser's representative, attorney, accountant or adviser(s) (the "Purchaser's advisers").

3.3.5 The Purchaser and/or the Purchaser's adviser(s) has/have had a reasonable opportunity to ask questions of and receive answers from a person or persons acting on behalf of the Company concerning the Offering and all such questions have been answered to the full satisfaction of the Purchaser.

3.3.6 The Purchaser is not subscribing for Securities as a result of or subsequent to any advertisement, article, notice or other communication published in any newspaper, magazine or similar media or broadcast over television or radio or presented at any seminar or meeting.

3.3.7 Purchaser is an "accredited investor" as such term is defined in Rule 501 under the Act and as indicated by the Purchaser's responses to the Confidential Purchaser Questionnaire.

3.3.8 Purchaser is a resident of, and all communications regarding Purchaser's purchase of the Securities were sent to Purchaser, in the state of Purchaser's residence shown on the subscription page attached hereto.

3.3.9 If the Purchaser is a natural person, the Purchaser has reached the age of majority in the state or other jurisdiction in which the Purchaser resides, has adequate means of providing for the Purchaser's current financial needs and contingencies, is able to bear the
substantial economic risks of an investment in the Securities for an indefinite period of time, has no need for liquidity in such investment and, at the present time, could afford a complete loss of such investment.

3.3.10 The Purchaser or the Purchaser's representative, as the case may be, has such knowledge and experience in financial, tax and business matters so as to enable the Purchaser to utilize the information made available to the Purchaser in connection with the Offering to evaluate the merits and risks of an investment in the Securities and to make an informed investment decision with respect thereto.

3.3.11 The Purchaser recognizes that an investment in the Securities involves substantial risks, including loss of the entire amount of such investment. Further, the Purchaser has carefully read and considered the matters set forth under the caption "Risk Factors" in the Placement Memorandum, and has taken full cognizance of and understands all of the risks related to the purchase of the Securities.

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3.4 Remedies. The Purchaser acknowledges and agrees that it shall not be entitled to seek any remedies with respect to the Offering from any party other than the Company.

3.5 Indemnification. The Purchaser shall indemnify and hold harmless the Company and each officer, director or control person of the Company, who is or may be a party or is or may be threatened to be made a party to any threatened, pending or completed action, suit or proceeding, whether civil, criminal, administrative or investigative, by reason of or arising from any actual or alleged misrepresentation or misstatement of facts or omission to represent or state facts made or alleged to have been made by the Purchaser to the Company, or omitted or alleged to have been omitted by the Purchaser, concerning the Purchaser or the Purchaser's authority to invest or financial position in connection with the Offering, including, without limitation, any such misrepresentation, misstatement or omission contained in any investor qualification questionnaire or any other document submitted by the Purchaser, against losses, liabilities and expenses for which the Company, or any officer, director or control person of the Company has not otherwise been reimbursed (including attorneys' fees, judgments, fines and amounts paid in settlement) actually and reasonably incurred by the Company, or such officer, director or control person in connection with such action, suit or proceeding.

4. COVENANTS OF THE COMPANY.

4.1 Information.

So long as the Company is subject to the periodic reporting requirements of the Exchange Act, the Company shall deliver to each holder of Securities all annual, quarterly or other reports to the extent such reports are furnished to the Company's public security holders. In the event that the Company is not so subject, until the fifth anniversary of the relevant Closing Date the Company shall promptly furnish to each holder of Securities (i) as soon as available, and in any event within 90 days after the end of each fiscal year of the Company, a consolidated balance sheet of the Company and its consolidated subsidiaries, if any, as of the end of such fiscal year and the related
consolidated statements of income, stockholders' equity and cash flows for such fiscal year, setting forth in each case in comparative form the figures for the previous fiscal year, all prepared in accordance with generally accepted accounting principles and reported on by independent certified public accountants of recognized national standing; and (ii) as soon as available, and in any event within 45 days after the end of each of the first three fiscal quarters of each fiscal year of the Company, a consolidated balance sheet of the Company and its consolidated subsidiaries, if any, as of the end of such quarter and the related consolidated statements of income and stockholder's equity (together with any other quarterly financial statements being prepared by the Company at such time), setting forth in each case in comparative form the figures for the corresponding quarter and the corresponding portion of the Company's previous fiscal year, all certified (subject to normal year-end adjustments) as to fairness of presentation and consistency by the chief financial or accounting officer of the Company.

5. UNDERSTANDINGS

The Purchaser understands, acknowledges and agrees with the Company as follows:

5.1 This Subscription may be rejected, in whole or in part, by the Company, in the sole and absolute discretion of the Company, at any time before any Closing Date notwithstanding prior receipt by the Purchaser of notice of acceptance of the Purchaser's Subscription.

5.2 Except as otherwise set forth herein, the Purchaser hereby acknowledges and agrees that the Subscription hereunder is irrevocable by the Purchaser, that, except as required by law, the Purchaser is not entitled to cancel, terminate or revoke this Agreement or any agreements of the Purchaser hereunder and that this Agreement and such other agreements shall survive the death or disability of the Purchaser and shall be binding upon and inure to the benefit of the parties and their heirs, executors, administrators, successors, legal representatives and permitted assigns. If the Purchaser is more than one person, the obligations of the Purchaser hereunder shall be joint and several and the agreements, representations, warranties and acknowledgments herein contained shall be deemed to be made by and be binding upon each such person and his/her heirs, executors, administrators, successors, legal representatives and permitted assigns.

5.3 No federal or state agency has made any finding or determination as to the accuracy or adequacy of the Placement Memorandum or as to the fairness of the terms of this Offering for investment nor any recommendation or endorsement of the Securities.

5.4 The Offering is intended to be exempt from registration under the Securities Act by virtue of Section 4(2) of the Securities Act and the provisions of Regulation D thereunder, which is in part dependent upon the truth, completeness and accuracy of the statements made by the Purchaser.

5.5 There can be no assurance that the Purchaser will
be able to sell or dispose of the Securities. It is understood that in order not to jeopardize the Offering's exempt status under Section 4(2) of the Securities Act and Regulation D, any transferee may, at a minimum, be required to fulfill the investor suitability requirements thereunder.

5.6 Pennsylvania Merchant Group is not acting as placement agent in connection with this Offering.

5.7 The Purchaser acknowledges that the information contained in the Placement Memorandum or otherwise made available to the Purchaser is confidential and non-public and agrees that all such information shall be kept in confidence by the Purchaser and neither used by the Purchaser for the Purchaser's personal benefit (other than in connection with this Subscription) nor disclosed to any third party for any reason; provided,

however, that this obligation shall not apply to any such information that (i) is part of the public knowledge or literature and readily accessible at the date hereof, (ii) becomes part of the public knowledge or literature and readily accessible by publication (except as a result of a breach of this provision) or (iii) is received from third parties (except third parties who disclose such information in violation of any confidentiality agreements or obligations, including, without limitation, any subscription or other similar agreement entered into with the Company).

5.8 The representations, warranties and agreements of the Purchaser contained herein and in any other writing delivered in connection with the transactions contemplated hereby shall be true and correct in all respects on and as of the relevant Closing Date of the sale of the Securities as if made on and as of such date and shall survive the execution and delivery of this Agreement and the purchase of the Securities.

5.9 IN MAKING AN INVESTMENT DECISION, PURCHASERS MUST RELY ON THEIR OWN EXAMINATION OF THE COMPANY AND THE TERMS OF THE OFFERING, INCLUDING THE MERITS AND RISKS INVOLVED. THE SECURITIES HAVE NOT BEEN RECOMMENDED BY ANY FEDERAL OR STATE SECURITIES COMMISSION OR REGULATORY AUTHORITY. FURTHERMORE, THE FOREGOING AUTHORITIES HAVE NOT CONFIRMED THE ACCURACY OR DETERMINED THE ADEQUACY OF THE PLACEMENT MEMORANDUM OR THIS PURCHASE AGREEMENT. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

5.10 THE SECURITIES ARE SUBJECT TO RESTRICTIONS ON TRANSFERABILITY AND RESALE AND MAY NOT BE TRANSFERRED, RESOLD OR OTHERWISE DISPOSED OF EXCEPT AS PERMITTED UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, PURSUANT TO REGISTRATION OR EXEMPTION THEREFROM. PURCHASERS SHOULD BE AWARE THAT THEY WILL BE REQUIRED TO BEAR THE FINANCIAL RISKS OF THIS INVESTMENT FOR AN INDEFINITE PERIOD OF TIME.

5.11 If the Purchaser is a Registered Representative of an NASD member firm, the Purchaser must give such firm the notice required by the NASD's Rules of Fair Practice, receipt of which must be acknowledged by such firm on the signature page hereof.

6. DEFAULTING PROSPECTIVE PURCHASERS. (a) If, on the relevant Closing Date, a prospective Purchaser defaults in the performance of its obligations
under this Agreement, a non-defaulting prospective Purchaser may make arrangements for the purchase of the Securities that would have been purchased by such defaulting prospective Purchaser by other persons satisfactory to the Company and the non-defaulting prospective Purchasers, but if no such arrangements are made within 36 hours after such default, this Agreement shall terminate without liability on the part of the non-defaulting prospective Purchasers or the Company except that prospective Purchasers will continue to be liable for the payment of expenses to the extent set forth in Section 7.8 and except that the provisions of Section 3.5 shall not terminate and shall remain in effect.

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(b) Nothing contained herein shall relieve a defaulting prospective Purchaser of any liability it may have for damages caused by its default. If other purchasers agree to purchase the Securities of a defaulting prospective Purchaser, either the non-defaulting prospective Purchaser or the Company may postpone a Closing Date for up to seven (7) full business days in order to effect any changes that in the reasonable opinion of counsel for the Company or counsel for the Placement Agent may be necessary in the Placement Memorandum, the Operative Documents or in any other document or arrangement, and the Company agrees to prepare and distribute promptly any amendment or supplement to the Placement Memorandum that effects any such changes.

7. MISCELLANEOUS

7.1 Governing Law. This Agreement shall be governed by and construed under the laws of the State of New York without regard to any otherwise applicable principles of conflicts of laws.

7.2 Survival. The representations and warranties made by the parties in this Agreement shall survive the consummation of the transactions herein contemplated until the expiration of the statute of limitations with respect to claims arising under Section 10(b) of the Securities Exchange Act of 1934, as amended, with respect to the purchase of Securities hereunder.

7.3 Successors and Assigns. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors and administrators of the parties hereto.

7.4 Entire Agreement. This Agreement and the Exhibits hereto, constitute the full and entire understanding and agreement among the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants or agreements except as specifically set forth herein or therein. Nothing in this Agreement, express or implied, is intended to confer upon any party, other than the parties hereto and their respective successors and assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

7.5 Severability. In the event that any provision of this Agreement shall be invalid, illegal or unenforceable, it shall, to the
extent practicable, be modified so as to make it valid, legal and enforceable and to retain as nearly as practicable the intent of the parties, and the validity, legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. To the extent permitted by law, the parties hereto waive the benefit of any provision of law that renders any provision of this Agreement invalid or unenforceable in any respect.

7.6 Amendment and Waiver. Except as otherwise provided herein, any term of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely), with the written consent of the Company and the Purchaser.

7.7 Notices. All notices and other communications required or permitted hereunder shall be in writing and shall be deemed effectively given upon personal delivery, on the first business day following mailing by overnight courier, or on the fifth day following mailing by registered or certified mail, return receipt requested, postage prepaid, addressed to the Company and the Purchaser at the respective addresses included herein.

7.8 Fees and Expenses. Except as otherwise provided herein, the Company and the Purchasers shall bear their own expenses and legal fees incurred on its behalf with respect to this Agreement and the transactions contemplated hereby.

7.9 Titles and Subtitles. The titles of the paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

7.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

7.11 No Waiver. No waiver by any party to this Agreement of any one or more defaults by any other party or parties in the performance of any of the provisions hereof shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature. Except as expressly provided herein, no failure or delay on the part of any party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

8. ESCROW AGENT. To induce Graham & James LLP to serve as the escrow agent and to act in such capacity hereunder, it is agreed by the parties hereto that:

(a) The escrow agent shall not be under any duty to give the property held by it hereunder (the "Escrowed Property") any greater degree of care than it gives its own similar property.
(b) This Section 8 of this Agreement expressly sets forth all the duties of the escrow agent with respect to any and all matters pertinent hereto. No implied duties or obligations shall be read into this Agreement against the escrow agent. The escrow agent shall not be bound by the provisions of any agreement among the other parties hereto except this Section 8 of this Agreement.

(c) The escrow agent shall not be liable, except for its own gross negligence or willful misconduct and, except with respect to claims based upon such gross negligence or willful misconduct that are successfully asserted against the escrow agent, the other parties hereto shall jointly and severally indemnify and hold harmless the escrow agent from and against any and all losses, liabilities, claims, actions, damages and expenses, including, without limitation, reasonable attorneys' fees and disbursements, arising out of or in connection with this Agreement.

(d) The escrow agent shall be entitled to rely upon any order, judgment, certification, demand, notice, instrument or other writing delivered to it hereunder without being required to determine the authenticity or the correctness of any fact stated therein or the propriety or validity of the service thereof. The escrow agent may act in reliance upon any instrument or signature believed by it to be genuine and may assume that any person purporting to give receipt or advice or make any statement or execute any document in connection with the provisions hereof has been duly authorized to do so.

(e) The escrow agent may act pursuant to the advice of counsel with respect to any matter relating to this Agreement and shall not be liable for any action taken or omitted in accordance with such advice.

(f) The escrow agent does not have any interest in the Escrowed Property deposited hereunder but is serving as escrow holder only and having only possession thereof. The other parties shall, on a joint and several basis, pay or reimburse the escrow agent upon request for any and all expenses, if any, incurred by the escrow agent in connection with this Agreement and transfer taxes or other taxes relating to the Escrowed Property incurred in connection herewith and shall indemnify and hold harmless the escrow agent from any amounts that it is obligated to pay in the way of such expenses and taxes. This subparagraph and subparagraph (c) shall survive notwithstanding any termination of this Agreement or the resignation of the escrow agent.

(g) The escrow agent makes no representation as to the validity, value, genuineness or the collectability of any security or other document or instrument held by or delivered to it.

(h) The escrow agent may at any time resign as successor by delivering the Escrowed Property to any successor escrow agent jointly designated by the other parties hereto in writing, or to any court of competent jurisdiction, whereupon the escrow agent shall be discharged of and from any and all further obligations arising in connection with this Agreement. The resignation of the escrow agent will take effect on the earlier of (a) the appointment of a successor (including a court of competent jurisdiction) or (b)
the day which is 30 days after the date of delivery of its written notice of resignation to the other parties hereto. If at that time the escrow agent has not received a designation of a successor escrow agent, the escrow agent’s sole responsibility after that time shall be to safekeep the Escrowed Property until receipt of a designation of successor escrow agent or a joint written disposition instruction by the other parties hereto or a final order of a court of competent jurisdiction.

   (i) In the event of any disagreement between the other parties hereto resulting in adverse claims or demands being made in connection with the Escrowed Property, or in the event that the escrow agent in good faith is in doubt as to what action it should take hereunder, the escrow agent shall be entitled to retain the Escrowed Property until the escrow agent shall have received (i) a final non-appealable order of a court of competent jurisdiction directing delivery of the Escrowed Property or (ii) a written agreement executed by the other parties hereto directing delivery of the Escrowed Property, in which event the escrow agent shall disburse the Escrowed Property in accordance with such order or agreement. Any court order shall be accompanied by a legal opinion by counsel for the presenting party satisfactory to the escrow agent to the effect that said opinion is final and non-appealable.

   (j) Notwithstanding anything to the contrary contained herein, the escrow agent’s duties and obligations hereunder shall terminate upon the release and distribution of the Escrowed Property in accordance with the terms of this Agreement.

   (k) Each of the Company and the Purchaser understands and agrees that, notwithstanding its duties as escrow agent hereunder, the escrow agent is the attorney for the Company, and, accordingly, neither any services as escrow agent hereunder nor any provisions hereof, either express or implied, shall restrict or inhibit the escrow agent in any way from representing the Company or its affiliates in any action, dispute, controversy, arbitration, suit or negotiation arising under this Agreement or under any other agreement or in any manner or context whatsoever, whether or not directly or indirectly involving the Company or its affiliates.

9. EXECUTION OF AGREEMENT.

THE PURCHASER ACKNOWLEDGES THAT THE PURCHASER HAS SIGNED THIS AGREEMENT ON THE PURCHASER’S OWN BEHALF, AND NOT BY POWER OF ATTORNEY.

IN WITNESS WHEREOF, the parties have executed this Purchase Agreement as of the day and year first written above.

- ----------------------------
Signature of Subscriber(s)

- ----------------------------
Name of Subscriber(s)
[please print]

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

Address of Subscriber(s)

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

Social Security or Taxpayer Identification Number of Subscriber(s)

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

Number of Shares Subscribed for

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

Number of Warrants Subscribed for

*$$

Payment

Date: ____________, 1998

* If Subscriber is a Registered Representative with an NASD member firm, have the following acknowledgment signed by the appropriate party:

The undersigned NASD member firm acknowledges receipt of the notice required by Article 3, Sections 28(a) and (b) of the Rules of Fair Practice.

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

Name of NASD Member Firm

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

By: Authorized Officer

* Estimated based on $4.00 per Share of Common Stock. Adjustments will be made in the Payment if the Offering Price, as defined in the Purchase Agreement, is different than the estimated $4.00 price per Share. The Purchaser agrees to remit to the Company on the Initial Closing the balance of the Payment if the Offering Price is greater than $4.00 per Share. The Company agrees to promptly remit to the Purchaser any excess Payment made by the Purchaser if the Offering Price is less than $4.00 per Share.

Subscription Accepted:
EXHIBIT A

WIRE TRANSFER INSTRUCTIONS

Wire transfers should be made to Graham & James LLP, as Escrow Agent, Citibank, N.A., 153 East 53rd Street, 20th Floor, New York, NY 10043, Account Number 37069829, ABA Routing Number 021000089. Ref F/B/O Palatin Technologies, Inc.

PALATIN TECHNOLOGIES, INC.

AMENDMENT NO. 1
TO
PURCHASE AGREEMENT

Amendment No. 1, dated as of December 31, 1998 to the Purchase Agreement (the "Agreement") made as of December __, 1998 by and between Palatin Technologies, Inc., a Delaware corporation (the "Company"), with its principal office at 214 Carnegie Center, Suite 100, Princeton, New Jersey 08540, and each of the purchasers who were signatories thereto and any other purchasers who are made a party to such Agreement (individually, a "Purchaser" and collectively, the "Purchasers").

RECITALS

WHEREAS, the Company and the Purchaser have entered into the Agreement dated as of December __, 1998 (and the Company has entered into similar purchase agreements with other Purchasers) relating to the Offering of a minimum of $3,000,000 and a maximum of $7,000,000 (a) shares (the "Shares") of the Company's Common Stock, $.01 par value per share (the "Common Stock") and (b) warrants (the "Warrants") to purchase one share of Common Stock of the Company but now wish to amend the Agreement to reduce the minimum of $3,000,000 to $1,150,000;
WHEREAS, the Agreement provides that the purchase price of the Shares to be offered in the Offering (the "Offering Price") will be determined based upon the average reported closing sales prices for the Common Stock on The Nasdaq SmallCap Market SM for the last five (5) business days immediately prior to the Initial Closing Date (as defined below) but now wish the Offering Price be amended to $4.00 per Share;

WHEREAS, the Agreement provides that every one share of Common Stock purchased in the Offering will entitle the Purchaser to a Warrant to purchase one share of Common Stock at an exercise price per share equal to the Offering Price, subject to certain adjustments but the parties now wish to amend the exercise price of each Warrant to equal the average reported closing sales prices for the Common Stock on the Nasdaq SmallCap Market SM for the five business days immediately preceding each Closing Date of the Offering (exercise price equal to $4.375 per Warrant on the Initial Closing Date).

WHEREAS, the Agreement provides that Warrants will be issued pursuant to a Warrant Agreement between the Company and American Stock Transfer & Trust Company but the parties now wish to amend the Agreement to have the Company act as its own Warrant Agent.

WHEREAS, the Agreement provides that certain documents or certificates be delivered on the Closing Date but the parties now wish to amend the Agreement to provide delivery of such documents or certificates within ten (10) business days following each Closing Date.

WHEREAS, each prospective Purchaser has received and carefully read a copy of a private placement memorandum, dated October 2, 1998, as amended by Amendment No. 1 dated November 23, 1998, Amendment No. 2 dated December 15, 1998 and Amendment No. 3 dated December 30, 1998 (the "Placement Memorandum"), describing the Company's business, financial and operating condition, the Offering and information regarding risks to be evaluated when contemplating an investment in the Company through the Offering.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants hereinafter set forth, the parties agree as follows:

1. Definitions; References. Unless otherwise specifically defined herein, each term used herein which is defined in the Agreement has the meaning assigned to such term in the Agreement. Each reference to "hereof," "hereunder," and "hereby" and each other similar reference and each reference to "this Agreement" and each other similar reference contained in the Agreement shall from and after the date hereof refer to the Agreement as amended hereby.

2. The Agreement is hereby amended in the following respects:

(a) The "$3,000,000" in the "Recitals" paragraph and in Section 1.1(a) and 2.1 of the Agreement is hereby deleted and replaced with "$1,150,000".
(b) "The purchase price of the Shares to be offered in the Offering (the "Offering Price") will be determined by the average reported closing sales prices for the Common Stock on the Nasdaq SmallCap MarketSM for the last five (5) business days immediately prior to the Initial Closing Date" as set forth in the "Recitals" is hereby deleted and replaced with "The purchase price of the Shares to be offered in the Offering (the "Offering Price") will be $4.00."

(c) "Every one share of Common Stock purchased in the Offering will entitle the Purchaser to a Warrant to purchase one share of Common Stock at an exercise price per share equal to the Offering Price, subject to certain adjustments" as set forth in the "Recitals" is hereby deleted and replaced with "Every one share of Common Stock purchased in the Offering will entitle the Purchaser to a Warrant to purchase one share of Common Stock at an exercise price per Warrant equal to the average reported closing sales prices for the Common Stock on the Nasdaq SmallCap Market SM for the five (5) business days immediately preceding each Closing Date of the Offering (exercise price equal to $4.375 per Warrant on the Initial Closing Date)."

(d) "The Warrants will be issued pursuant to a warrant agreement ("Warrant Agreement") between the Company and American Stock Transfer & Trust Company" as set forth in the "Recitals" is hereby deleted and replaced with "The Warrants will be issued pursuant to Warrant Certificates substantially in the form attached as Exhibit A hereto." All references in the Agreement to a Warrant Agreement are hereby deleted.

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(e) Section 2.1 of the Agreement is hereby amended to delete "December 31, 1998" and replace it with "January 31, 1999."

(f) Section 2.2 of the Agreement is hereby amended to delete "On each Closing Date" in the first line and to replace it with "Within ten (10) business days following each Closing Date."

3. No Other Amendments. Except as expressly amended hereby, the terms and provisions of the Agreement shall remain in full force and effect.

4. Counterparts. This Amendment No. 1 may be executed in counterparts and by facsimile signature.

IN WITNESS WHEREOF, the parties hereto have executed this Amendment No. 1 as of the date first above written.
REGISTRATION RIGHTS AGREEMENT

This Registration Rights Agreement (this "Agreement") is made this 31st day of December, 1998, by PALATIN TECHNOLOGIES, INC., a Delaware corporation (the "Company"), for the benefit of each Purchaser (individually a "Purchaser" and collectively the "Purchasers") entering into that certain Purchase Agreement (the "Purchase Agreement") with the Company.

BACKGROUND

Pursuant to the Purchase Agreement, the Company has offered (the "Offering") for sale a minimum of $1,150,000 and a maximum of $7,000,000 of (a) shares (the "Shares") of the Company’s Common Stock, par value $.01 per share (the "Common Stock") and (b) warrants (the "Warrants") to purchase one share of Common Stock of the Company. The Shares and Warrants shall from time to time be collectively referred to herein as the "Securities." In order to induce the Purchasers to purchase the Securities, the Company has agreed to provide the registration rights set forth in this Agreement.


This Agreement is made for the benefit of the Purchasers in reliance upon each Purchaser’s representations to the Company, as the same are set forth in Section 4 of the Purchase Agreement.

2. Registration Rights.

2.1 Certain Definitions. As used in this Agreement, the following terms shall have the following respective meanings:

(a) "Commission" shall mean the Securities and Exchange Commission or any other federal agency at the time administering the Securities Act.
(b) "Form S-1, Form SB-1, Form S-2, Form SB-2 and Form S-3" shall mean Form S-1, Form SB-1, Form S-2, Form SB-2 or Form S-3, respectively, promulgated by the Commission or any substantially similar form then in effect.

(c) "Purchasers" shall mean, collectively, the Purchasers, their permitted assignees and transferees and, individually, a Purchaser and any permitted assignee or transferee of such Purchaser.

(d) The terms "Register", "Registered" and "Registration" refer to a registration effected by preparing and filing a Registration Statement or Statements or similar documents in compliance with the Securities Act, and the declaration or ordering by the Commission of the effectiveness of such Registration Statement.

(e) "Registrable Securities" shall mean the Shares and Warrant Shares so long as such shares are ineligible for sale under subparagraph (k) of Rule 144.

(f) "Registration Expenses" shall mean all expenses incurred by the Company in complying with Section 2, including, without limitation, all federal and state registration, qualification and filing fees, printing expenses, fees and disbursements of counsel for the Company, accountant fees, blue sky fees and expenses and, the expense of any special audits incident to or required by any such Registration.

(g) "Registration Statement" shall mean Form S-1, Form SB-1, Form S-2, Form SB-2 or Form S-3, whichever is applicable, unless otherwise specified herein.

(h) "Rule 144" shall mean Rule 144 promulgated by the Commission pursuant to the Securities Act.

(i) "Securities Act" shall mean the Securities Act of 1933, as amended.

(j) "Selling Expenses" shall mean all underwriting discounts and selling commissions applicable to the sale of Registrable Securities pursuant to this Agreement.

(k) "Selling Stockholder" shall mean a holder of Registrable Securities who requests Registration under Section 2.3 hereof or whose shares of Common Stock become Registered pursuant to Section 2.2 hereof.

(l) "Warrant Shares" shall mean the shares of capital stock of the Company underlying the Warrants.
Capitalized terms used but not defined herein shall have the meanings ascribed to such terms in the Purchase Agreement.

2.2 Required Registration

(a) Within 30 days following the Final Closing Date of the Offering, the Company shall file with the Commission a Registration Statement for the purpose of Registering, upon the effectiveness of such Registration Statement, the Shares and the Warrant Shares.

(b) The Company shall use its best efforts to maintain with the Commission a Registration Statement that is effective and causes the Shares and the Warrant Shares to be Registered under the Securities Act until the date on which the Shares and the Warrant Shares are eligible for resale or other disposition under Rule 144 without regard to the volume limitations thereof.

2.3 Piggyback Registration

(a) Until the time set forth in Section 2.3(g) hereof, each time that the Company proposes to Register a public offering of its Common Stock, other than (i) pursuant to a Registration Statement on Form S-4 or Form S-8 or similar or successor forms or (ii) on a Registration Statement filed in connection with an exchange offer or other offer of Common Stock solely to the then-existing stockholders of the Company, the Company shall promptly give written notice of such proposed Registration to all holders of Shares and Warrant Shares, which shall offer such holders the right to request inclusion of any Registrable Securities in the proposed Registration.

(b) Each holder of Shares or Warrant Shares shall have ten (10) days or such longer period as shall be set forth in the notice from the receipt of such notice to deliver to the Company a written request specifying the number of shares of Registrable Securities such holder intends to sell and the holder's intended plan of disposition.

(c) The Company shall have the exclusive right to select all underwriters for any underwritten public offering of securities of the Company, including all Shares and Warrant Shares. In the event that the proposed Registration by the Company is, in whole or in part, an underwritten public offering of securities of the Company, any request under Section 2.3(b) shall contain the holder's agreement that the Registrable Securities will be included in the underwriting on the same terms and conditions as the shares of Common Stock, if any, otherwise being sold through underwriters under such
(d) Upon receipt of a written request pursuant to Section 2.3(b), the Company shall promptly use its best efforts to cause all such Registrable Securities to be Registered, to the extent required to permit sale or disposition as set forth in the written request.

(e) Notwithstanding the foregoing, if the managing underwriter of an underwritten public offering determines and advises in writing that the inclusion of all Registrable Securities proposed to be included in the underwritten public offering, together with any shares proposed to be sold by the Company for its own account and any other issued and outstanding shares of Common Stock proposed to be included therein by holders other than the holders of Registrable Securities (such other holders' shares hereinafter collectively referred to as the "Other Shares"), would interfere with the successful marketing of the securities proposed to be included in the underwritten public offering, including the price at which such securities can be sold, then the number of such shares of persons other than the Company that otherwise would be included in such underwritten public offering shall be excluded from such underwritten public offering in a number deemed necessary by such managing underwriter, first by excluding, to the extent necessary, other shares held by persons who have not exercised contractual rights to include such Shares in the offering pursuant to the Prior Registration Rights Agreements (as hereinafter defined), and then, to the extent necessary, by excluding Registrable Securities participating in such underwritten public offering, pro rata, based on the number of shares of Registrable Securities each holder proposes to include; and, then, excluding to the extent necessary, other Shares proposed to be included by the holders of other Shares who have exercised registration rights granted to them under registration rights agreements of the Company in effect on the date hereof or any other registration rights in effect on the date hereof (collectively, the "Prior Registration Rights Agreements").

(f) All Shares and Warrant Shares that are not included in an underwritten public offering pursuant to Section 2.3 shall be withheld from the market by the holders thereof for a period, not to exceed 12 months following a public offering, that the managing underwriter reasonably determines is necessary in order to effect the underwritten public offering. The holders of such Shares and the Warrant Shares shall execute such documentation as the managing underwriter reasonably requests to
The registration rights provided by this Agreement shall expire with respect to any Registrable Security upon the earliest to occur of (i) the effectiveness of a Registration Statement that includes in the Registration effected thereby, at the request of a Selling Stockholder, such Registrable Security; (ii) the date on which such Registrable Security is eligible for resale under Rule 144 without regard to the volume limitations thereof; and (iii) five years from the date hereof.

2.4 Preparation and Filing. If and whenever the Company is under an obligation pursuant to the provisions of this Section 2 to use its best efforts to effect the Registration of any Registrable Securities, the Company shall, as expeditiously as practicable:

(a) prepare and file with the Commission a Registration Statement with respect to such Registrable Securities, using such form of available Registration Statement as is reasonably selected by the Company (unless otherwise specified herein), and use its best efforts to cause such Registration Statement to become and remain effective, keeping each Selling Stockholder advised as to the initiation, progress and completion of the Registration;

(b) prepare and file with the Commission such amendments and supplements to such Registration Statements and the prospectus used in connection therewith as may be necessary to keep such Registration Statement effective for, in the case of a Required Registration under Section 2.2, the period set forth in Section 2.2(b) and, in the case of a Piggyback Registration under Section 2.3, six months, and to comply with the provisions of the Securities Act with respect to the sale or other disposition of all Registrable Securities covered by such Registration Statement;

(c) furnish to each Selling Stockholder such number of copies of any summary prospectus or other prospectus, including a preliminary prospectus and all amendments and supplements thereto, in conformity with the requirements of the Securities Act, and such other documents as such Selling Stockholder may reasonably request in order to facilitate the public sale or other disposition of such Registrable Securities; provided, however, that no such prospectus need be furnished more than, in the case of a Required Registration under Section 2.2, six months after the conclusion of the period set forth in Section 2.2(b) and, in the case of a Piggyback Registration under Section 2.3, six months.
after the effective date of the Registration Statement related thereto;

(d) use its best efforts to register or qualify the Registrable Securities covered by such Registration Statement under the securities or blue sky laws of such jurisdictions as each Selling Stockholder shall reasonably request and do any and all other acts or things which may be reasonably necessary or advisable to enable such holder to consummate the public sale or other disposition in such jurisdictions of such Registrable Securities; provided, however, that the Company shall not be required to consent to general service of process, qualify to do business as a foreign corporation where it would not be otherwise required to qualify or submit to liability for state or local taxes where it is not liable for such taxes or provide any undertaking or make any change in its Certificate of Incorporation; and

(e) at any time when a prospectus covered by such Registration Statement is required to be delivered under the Securities Act within the appropriate period mentioned in Section 2.2(b) or Section 2.3(b) hereof, as the case may be, notify each Selling Stockholder of the happening of any event as a result of which the prospectus included in such Registration Statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing and, at the request of such seller, prepare, file and furnish to such seller a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statement therein not misleading in the light of the circumstances then existing. The Company may delay amending or supplementing the prospectus for a period of up to 90 days if the Company is then engaged in negotiations regarding a material transaction that has not been publicly disclosed, and the Selling Stockholders shall suspend their sale of Shares until an appropriate supplement or prospectus has been forwarded to them or the proposed transaction is abandoned.

Notwithstanding the foregoing, with respect to the proposed Registration of Registrable Securities pursuant to Section 2.3 hereof, the Company may withdraw or cease proceeding with any proposed Registration of
Registrable Securities if it has withdrawn or ceased proceeding with the proposed Registration of Common Stock of the Company with which the Registration of such Registrable Securities was to be included.

2.5 Expenses. The Company shall pay all Registration Expenses incurred by the Company in complying with this Section 2.

2.6 Information Furnished by Purchaser. It shall be a condition precedent to the Company’s obligations under this Agreement as to any Selling Stockholder that each Selling Stockholder furnish to the Company in writing such information regarding such Selling Stockholder and the distribution proposed by such Selling Stockholder as the Company may reasonably request.

2.7 Indemnification.

2.7.1 Company’s Indemnification of Purchasers. The Company shall indemnify each Selling Stockholder, each of its officers, directors and constituent partners, and each person controlling (within the meaning of the Securities Act) such Selling Stockholder, against all claims, losses, damages or liabilities (or actions in respect thereof) suffered or incurred by any of them, to the extent such claims, losses, damages or liabilities arise out of or are based upon any untrue statement (or alleged untrue statement) of a material fact contained in any prospectus or any related Registration Statement incident to any such Registration, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by the Company of any rule or regulation promulgated under the Securities Act applicable to the Company and relating to actions or inaction required of the Company in connection with any such Registration; and the Company will reimburse each such Selling Stockholder, each of its officers, directors and constituent partners and each person who controls any such Selling Stockholder, for any reasonable, documented legal and other expenses incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that the indemnity contained in this Section 2.7.1 shall not apply to amounts paid in settlement of any such claim, loss, damage, liability or action if settlement is effected without the consent of the Company (which consent shall not unreasonably be withheld); and provided, further, that the Company will not be liable in any such case to the extent that any such claim, loss, damage, liability or expense arises out of or is based upon any untrue (or alleged untrue) statement or omission based upon written information furnished to the Company by such Selling Stockholder,
2.7.2 Selling Stockholder's Indemnification of Company. Each Selling Stockholder shall indemnify the Company, each of its directors and officers, each underwriter, if any, of the Company's securities covered by a Registration Statement, each person who controls the Company or such underwriter within the meaning of the Securities Act, and each other Selling Stockholder, each of its officers, directors and constituent partners and each person controlling such other Selling Stockholder, against all claims, losses, damages and liabilities (or actions in respect thereof) suffered or incurred by any of them and arising out of or based upon any untrue statement (or alleged untrue statement) of a material fact contained in such Registration Statement or related prospectus, or any omission (or alleged omission) to state therein a material fact required to be stated therein or necessary to make the statements therein not misleading, or any violation by such Selling Stockholder of any rule or regulation promulgated under the Securities Act applicable to such Selling Stockholder and relating to actions or inaction required of such Selling Stockholder in connection with the Registration of the Registrable Securities pursuant to such Registration Statement; and will reimburse the Company, such other Selling Stockholders, such directors, officers, partners, persons, underwriters and controlling persons for any reasonable, documented legal and other expenses incurred in connection with investigating or defending any such claim, loss, damage, liability or action; provided, however, that such indemnification and reimbursement shall be to the extent, but only to the extent, that such untrue statement (or alleged untrue statement) or omission (or alleged omission) is made in such Registration Statement or prospectus in reliance upon and in conformity with written information furnished to the Company by such Selling Stockholder and stated to be for use in connection with the offering of Registrable Securities.

2.7.3 Indemnification Procedure. Promptly after receipt by an indemnified party under this Section 2.7 of notice of the commencement of any action which may give rise to a claim for indemnification hereunder, such indemnified party will, if a claim in respect thereof is to be made against an indemnifying party under this Section 2.7, notify the indemnifying party in writing of the commencement thereof and generally summarize such action. The indemnifying party shall have the right to
participate in and to assume the defense of such claim, and shall be entitled to select counsel for the defense of such claim with the approval of any parties entitled to indemnification, which approval shall not be unreasonably withheld. Notwithstanding the foregoing, the parties entitled to indemnification shall have the right to employ separate counsel (reasonably satisfactory to the indemnifying party) to participate in the defense thereof, but the fees and expenses of such separate counsel shall be at the expense of such indemnified parties unless the named parties to such action or proceedings include both the indemnifying party and the indemnified parties and the indemnifying party or such indemnified parties shall have been advised by counsel that there are one or more legal defenses available to the indemnified parties which are different from or additional to those available to the indemnifying party (in which case, if the indemnified parties notify the indemnifying party in writing that they elect to employ separate counsel at the reasonable expense of the indemnifying party, the indemnifying party shall not have the right to assume the defense of such action or proceeding on behalf of the indemnified parties, it being understood, however, that the indemnifying party shall not, in connection with any such action or proceeding or separate or substantially similar or related action or proceeding in the same jurisdiction arising out of the same general allegations or circumstances, be liable for the reasonable, documented fees and expenses of more than one separate counsel at any time for all indemnified parties, which counsel shall be designated in writing by the Purchasers of a majority of the Registrable Securities).

2.7.4 Contribution. If the indemnification provided for in this Section 2.7 from an indemnifying party is unavailable to an indemnified party hereunder in respect to any losses, claims, damages, liabilities or expenses referred to herein, then the indemnifying party, in lieu of indemnifying such indemnified party, shall contribute to the amount paid or payable by such indemnified party as a result of such losses, claims, damages, liabilities or expenses in such proportion as is appropriate to reflect the relative fault of the indemnifying party and indemnified party in connection with the statements or omissions which result in such losses, claims, damages, liabilities or expenses, as well as any other relevant equitable considerations. The relative fault of such indemnifying party and indemnified party shall be determined by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission or alleged omission to state a
material fact relates to information supplied by such indemnifying party or indemnified party and the parties' relative intent, knowledge, access to information supplied by such indemnifying party or indemnified party and opportunity to correct or prevent such statement or omission. The amount paid or payable by a party as a result of the losses, claims, damages, liabilities and expenses referred to above shall be deemed to include any documented legal or other fees or expenses reasonably incurred by such party in connection with investigating or defending any action, suit, proceeding or claim, or in collecting such indemnity or reimbursement from the indemnifying party.

3. Covenants of the Company.

The Company agrees to:

(a) Notify the holders of Registrable Securities included in a Registration Statement (i) of the issuance by the Commission of any stop order suspending the effectiveness of such Registration Statement and (ii) upon learning of the initiation of any proceedings for the purpose of suspending such effectiveness, the existence of such proceedings. The Company will make every reasonable effort to prevent the issuance of any stop order and, if any stop order is issued, to obtain the lifting thereof at the earliest possible time.

(b) If the Common Stock is then listed on a national securities exchange, use its best efforts to cause the Registrable Securities to be listed on such exchange. If the Common Stock is not then listed on a national securities exchange, use its best efforts to facilitate the reporting of the Registrable Securities on Nasdaq.

(c) Take all other reasonable actions necessary to expedite and facilitate disposition of the Registrable Securities by the holders thereof pursuant to the Registration Statement.

(d) With a view to making available to the holders of Registrable Securities the benefits of Rule 144 promulgated under the Securities Act and any other rule or regulation of the Commission that may at any time permit the Purchasers to sell securities of the Company to the public without registration, the Company agrees to:

(i) make and keep adequate current public information with respect to the Company available, as those terms are understood and defined in Rule 144, at all times after 90 days after the effective date of the first Registration Statement filed by the Company for the offering of its securities to the general public;
(ii) file with the Commission in a timely manner all reports and other documents required of the Company under the Securities Act and the Securities Exchange Act of 1934 (the "1934 Act"); and

(iii) furnish to each holder of Shares, so long as such holder of Shares owns any Shares, forthwith upon written request (a) a written statement by the Company as to whether it has complied with the reporting requirements of Rule 144, the Securities Act and the 1934 Act, (b) a copy of the most recent annual or quarterly report of the Company and such other reports and documents so filed by the Company and (c) such other information as may be reasonably requested and as is publicly available in availing the holders of Shares of any rule or regulation of the Commission which permits the selling of any such securities without registration.

(e) Prior to the filing of a Registration Statement or any amendment thereto (whether pre-effective or post-effective), and prior to the filing of any prospectus or prospectus supplement related thereto, the Company will provide each Selling Stockholder with copies of all pages thereto, if any, which reference such Selling Stockholder.

(f) If the Registration Statement relates to an underwritten offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, including, without limitation, customary indemnification and contribution obligations, with the underwriter's representative.

(g) Make generally available to its security holders as soon as practicable, but not later than forty five (45) days after the close of the period covered thereby, the Company's financial statements as filed with the Commission.

(h) At the request of the Investors who hold a majority in interest of the Registrable Securities being sold, furnish to the underwriters, if any, on the date that Registrable Securities are delivered to the underwriters for sale in connection with a registration pursuant to this Agreement (i) an opinion, dated such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, and (ii) a letter, dated such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering, addressed to the underwriters.
(i) Make available for inspection by any underwriters participating in the offering and the counsel, accountants or other agents retained by such underwriter, all pertinent financial and other records, corporate documents and properties of the Company, and cause the Company's officers, directors and employees to supply all information reasonably requested by such underwriters in connection with the Registration Statement.

(j) Provide a transfer agent and registrar, which may be a single entity, for the Registrable Securities not later than the effective date of the Registration Statement.

(k) Take all actions reasonably necessary to facilitate the timely preparation and delivery of certificates (not bearing any restrictive legend) representing the Registrable Securities sold pursuant to the Registration Statement and to enable such certificates to be in such denominations and registered in such names as the Purchasers or any underwriters may reasonably request.

4. Miscellaneous.

(a) This Agreement shall be governed by and construed under the laws of the State of New York.

(b) This Agreement may not be assigned by a Purchaser other than to the purchaser or transferee of more than 5,000 of the Purchaser's Shares, which purchaser or transferee shall be a permitted assign hereunder and under the Purchase Agreement. Except as otherwise expressly provided herein, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, permitted assigns, heirs, executors and administrators of the parties hereto.

(c) This Agreement and the other documents delivered pursuant hereto constitute the full and entire understanding and agreement among the parties with regard to the subjects hereof and no party shall be liable or bound to any other party in any manner by any representations, warranties, covenants or agreements except as specifically set forth herein or therein. Nothing in this Agreement, express or implied, is intended to confer upon any party, other than the parties hereto and their respective successors and permitted assigns, any rights, remedies, obligations, or liabilities under or by reason of this Agreement, except as expressly provided herein.

(d) In the event that any provision of this Agreement shall be invalid, illegal or unenforceable, it shall, to the extent practicable, be modified so as to make it valid, legal and enforceable and to retain as nearly as practicable the intent of the parties, and the validity legality, and enforceability of the remaining provisions shall not in any way be affected or impaired thereby. To the extent permitted by law, the parties
waive the benefit of any provision of law that renders any provision of the Agreement invalid or unenforceable in any respect.

(e) Except as otherwise provided herein, any term of this Agreement may be amended, and the observance of any term of this Agreement may be waived (either generally or in a particular instance, either retroactively or prospectively, and either for a specified period of time or indefinitely), with the written consent of the Company and the Purchaser.

(f) All notices and other communications required or permitted hereunder shall be in writing and shall be deemed effectively given upon personal delivery, on the first business day following mailing by overnight courier, or on the fifth day following mailing by registered or certified mail, return receipt requested, postage prepaid, addressed to the Company at its address as set forth in the Purchase Agreement and to the Purchaser at its address as shown on the books of the Company.

(g) The titles of the paragraphs and subparagraphs of this Agreement are for convenience of reference only and are not to be considered in construing this Agreement.

(h) This Agreement may be executed in any number of counterparts, each of which shall be deemed an original, but all of which together shall constitute one instrument.

(i) No waiver by any party to this Agreement of any one or more defaults by any other party or parties in the performance of any of the provisions hereof shall operate or be construed as a waiver of any future default or defaults, whether of a like or different nature. Except as expressly provided herein, no failure or delay on the part of any party in exercising any right, power or remedy hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such right, power or remedy preclude any other or further exercise thereof or the exercise of any other right, power or remedy.

[SIGNATURE PAGE FOLLOWS]
IN WITNESS WHEREOF, the parties have executed this Registration Rights Agreement as of the day and year first written above.

Signature of Subscriber(s)

Name of Subscriber(s)
[please print]

Address of Subscriber(s)

Social Security or Taxpayer Identification Number of Subscriber(s)

Number of Shares Subscribed for

Number of Warrants Subscribed for
Date: December 31, 1998

PALATIN TECHNOLOGIES, INC.

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

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

Palatin Technologies, Inc.