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, 1999

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
incorporation or organization) Identification No.)

103 Carnegie Center - Suite 200 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 14, 2000, 7,396,718 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.

Table of Contents

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEETS -- As of December 31, 1999 and June 30, 1999.................................Page 3

CONSOLIDATED STATEMENTS OF OPERATIONS --
For the Three and Six Months Ended December 31, 1999 and December 31, 1998 and the Period from January 28, 1986 (Commencement of Operations) through December 31, 1999........Page 4

CONSOLIDATED STATEMENTS OF CASH FLOWS --
For the Six Months Ended December 31, 1999 and December 31, 1998 and the Period From January 28, 1986 (Commencement of Operations) through December 31, 1999........Page 5

Notes to Consolidated Financial Statements..............Page 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations........................Page 9
## PART II - OTHER INFORMATION

1. Legal Proceedings
2. Changes in Securities and Use of Proceeds
3. Defaults Upon Senior Securities
4. Submission of Matters to a Vote of Security Holders
5. Other Information
6. Exhibits and Reports on Form 8-K

Signatures

## PART I - FINANCIAL INFORMATION

### Item 1. Financial Statements

**PALATIN TECHNOLOGIES, INC.**
(A Development Stage Enterprise)

Consolidated Balance Sheets
(unaudited)

<table>
<thead>
<tr>
<th></th>
<th>December 31, 1999</th>
<th>June 30, 1999</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash, cash equivalents and investments</td>
<td>$8,280,818</td>
<td>$2,788,628</td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>2,141,900</td>
<td></td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>597,595</td>
<td>147,780</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>$11,020,313</td>
<td>$2,936,408</td>
</tr>
<tr>
<td>Fixed assets, net of accumulated depreciation and amortization of $789,698 and $676,362, respectively</td>
<td>$1,449,446</td>
<td>$1,457,605</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>185,000</td>
<td>185,000</td>
</tr>
<tr>
<td>Other</td>
<td>60,028</td>
<td>144,032</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$12,714,787</td>
<td>$4,723,045</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND STOCKHOLDERS’ EQUITY** |                  |              |
| Current liabilities: |                  |              |
| Accounts payable | $1,347,120 | $1,116,894 |
| Accrued expenses | 1,135,590 | 1,264,893 |
| **Total current liabilities** | $2,482,710 | $2,381,787 |
| Long term debt | $2,000,000 |              |
Commitments and contingencies (Note 4)

Stockholders’ equity:
- Preferred stock of $.01 par value—authorized 10,000,000 shares;
  —Series A Convertible; 38,936 and 42,484 shares issued and outstanding
    as of December 31, 1999 and June 30, 1999, respectively; 389 425
  —Series B Convertible; 12,875 and 13,575 shares issued and outstanding
    as of December 31, 1999 and June 30, 1999, respectively; 129 136
  —Series C Convertible; 700,000 shares issued and outstanding
    as of December 31, 1999; 7,000
- Common stock of $.01 par value—authorized 75,000,000 shares;
  —Issued and outstanding 7,243,839 and 7,137,595 shares as of
    December 31, 1999 and June 30, 1999, respectively; 72,438 71,376
- Additional paid-in capital 40,684,332 35,610,243
- Unamortized deferred compensation (18,558)
- Deficit accumulated during development stage (39,532,211) (35,322,364)

Total stockholder’s equity 10,232,077 341,258

$ 12,714,787 $ 4,723,045

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.
PALATIN TECHNOLOGIES, INC.  
(A Development Stage Enterprise)  
Consolidated Statements of Operations  
(unaudited)  
Inception  
(January 28, 1986)  
Three Months Ended December 31,  through  
---------------  ----------------  --------------  --------------  --------------  

REVENUES:  
- Grants and contracts  $ 1,009,591  $ 2,259,591  $ 5,564,220  
- License fees and royalties  550,000  500,000  550,000  1,734,296  
- Other  318,917  
---------------  ----------------  --------------  --------------  --------------  
Total revenues  1,009,591  550,000  2,759,591  550,000  7,617,433  

OPERATING EXPENSES:  
- Research and development  2,375,659  2,205,272  4,824,282  4,342,863  28,461,951  
- General and administrative  1,536,250  543,174  2,305,684  1,389,464  17,090,685  
- Net intangibles write down  259,334  
---------------  ----------------  --------------  --------------  --------------  
Total operating expenses  3,911,909  2,748,446  7,129,966  5,732,327  45,811,970  

OTHER INCOME (EXPENSES):  
- Interest income  115,074  25,004  186,389  85,220  1,134,789  
- Interest expense  (625)  (23,601)  (25,861)  (57,600)  (1,947,463)  
- Merger costs  
---------------  ----------------  --------------  --------------  --------------  
Total other income (expenses)  114,449  1,403  160,528  27,620  (1,337,674)  

NET LOSS  (2,787,869)  (2,197,043)  (4,209,847)  (5,154,707)  (42,653,736)  

PREFERRED STOCK DIVIDEND  (3,121,525)  

NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS  $ (2,787,869)  $ (2,197,043)  $ (4,209,847)  $ (5,154,707)  $ (42,653,736)  

Basic and diluted net loss per common share  $ (0.38)  $ (0.46)  $ (0.58)  $ (1.11)  $ (29.15)  

Weighted average number of common shares outstanding used in computing basic and diluted net loss per common share  7,242,544  4,745,953  7,223,073  4,624,021  1,463,497  

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

**Inception**

(January 28, 1986)

**Six Months Ended December 31, Through**

1999 1998  December 31, 1999

<table>
<thead>
<tr>
<th>CASH FLOWS FROM OPERATING ACTIVITIES:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>(4,209,847)</td>
<td>(5,154,707)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used for operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>118,340</td>
<td>115,223</td>
</tr>
<tr>
<td>License fee</td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Interest expense on note payable</td>
<td>72,691</td>
<td>72,691</td>
</tr>
<tr>
<td>Accrued interest on long-term financing</td>
<td>796,038</td>
<td>796,038</td>
</tr>
<tr>
<td>Accrued interest on short-term financing</td>
<td>7,926</td>
<td>7,926</td>
</tr>
<tr>
<td>Intangibles and equipment write down</td>
<td>278,318</td>
<td>278,318</td>
</tr>
<tr>
<td>Common stock and notes payable issued for expenses</td>
<td>751,038</td>
<td>751,038</td>
</tr>
<tr>
<td>Settlement with consultant</td>
<td>(28,731)</td>
<td>(28,731)</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(550,000)</td>
<td>(550,000)</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>1,095,058</td>
<td>435,984</td>
</tr>
<tr>
<td>Changes in certain operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Accounts receivable</td>
<td>(2,141,900)</td>
<td>(2,141,900)</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>(370,815)</td>
<td>(98,920)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>230,226</td>
<td>249,732</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>(129,303)</td>
<td>(6,025)</td>
</tr>
<tr>
<td>Net cash used for operating activities</td>
<td>(5,408,241)</td>
<td>(5,008,713)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM INVESTING ACTIVITIES:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Purchases of property and equipment</td>
<td>(105,177)</td>
<td>(17,101)</td>
</tr>
<tr>
<td>Purchase of investments</td>
<td>(1,679,416)</td>
<td>(1,679,416)</td>
</tr>
<tr>
<td>Net cash used for operating activities</td>
<td>(1,784,593)</td>
<td>(17,101)</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>CASH FLOWS FROM FINANCING ACTIVITIES:</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Proceeds from notes payable, related party</td>
<td>362,900</td>
<td>362,900</td>
</tr>
<tr>
<td>Payments on notes payable, related party</td>
<td>(302,009)</td>
<td>(302,009)</td>
</tr>
<tr>
<td>Proceeds from senior bridge notes payable</td>
<td>1,850,000</td>
<td>1,850,000</td>
</tr>
<tr>
<td>Payments on senior bridge notes payable</td>
<td>(1,850,000)</td>
<td>(1,850,000)</td>
</tr>
<tr>
<td>Proceeds from notes payable and long term debt</td>
<td>3,951,327</td>
<td>3,951,327</td>
</tr>
<tr>
<td>Payments on notes payable and long term debt</td>
<td>(494,047)</td>
<td>(1,951,327)</td>
</tr>
<tr>
<td>Proceeds from Common stock, stock option</td>
<td>5,608</td>
<td>3,161,940</td>
</tr>
<tr>
<td>and warrant issuances, net</td>
<td>5,608</td>
<td>3,161,940</td>
</tr>
<tr>
<td>Proceeds from preferred stock, net</td>
<td>11,990,000</td>
<td>24,210,326</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>(1,667)</td>
<td>(1,667)</td>
</tr>
<tr>
<td>Net cash provided by financing activities</td>
<td>11,005,608</td>
<td>2,667,892</td>
</tr>
</tbody>
</table>

**NET INCREASE (DECREASE) IN CASH:**
The accompanying notes to the consolidated financial statements are an integral part of these financial statements.

5

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, pharmaceutical company headquartered in Princeton, NJ with its research facility in Edison, NJ. The Company is dedicated to developing and commercializing products and technologies for diagnostic imaging and ethical drug development utilizing peptide, monoclonal antibody, and radiopharmaceutical technologies. The Company is concentrating on the following products and technologies:

(i) LeuTech(R), an infection and inflammation imaging product ("LeuTech"),

(ii) PT-14, a peptide hormone product for the treatment of sexual dysfunction ("PT-14"), and

(iii) Metal Ion-induced Distinctive Array of Structures ("MIDAS(TM)"
metallopeptide technology ("MIDAS technology").

Business Risk and Liquidity -- As shown in the accompanying financial statements, the Company incurred net losses of $4,209,847 for the six months ended December 31, 1999 and has a deficit accumulated during development stage of $39,532,211. The Company anticipates incurring additional losses over the next several years, as it begins to manufacture and market LeuTech, expand clinical trials for LeuTech's other indications and for PT-14, and to continue research and development of PT-14 and MIDAS technology. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, conduct pre-clinical studies and clinical trials, obtain required regulatory approvals and successfully manufacture and market such technologies and proposed products. The time required to reach profitability is highly uncertain, and there can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

Pursuant to its Strategic Collaboration Agreement with Mallinckrodt, Inc, the Company recognized $2,141,900 as contract revenue during the six months ended December 31, 1999, of which approximately $1,945,000 was related to the shared development costs and $196,900 was related to product direct costs of LeuTech.
On November 12, 1999 the Company announced that the Board of Directors of Molecular Biosystems, Inc. ("MBI") and the Company have unanimously approved a merger agreement which provides for a merger of a wholly owned subsidiary of the Company into MBI, in which MBI will become a wholly owned subsidiary of the Company (Note 5). The merger is contingent upon stockholder approval. The Company anticipates the voting by the stockholders to take place in late March or April of 2000.

Management plans to continue to refine its operations, control expenses, evaluate alternative methods to conduct its business, and seek available and attractive sources of financing and sharing of development costs. Management believes that through one or a combination of such factors the Company will be able to obtain adequate financing to fund its operations through March 31, 2001 based on current expenditure levels. There can be no assurance that the Company's efforts will be successful.

(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 management, 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, 1999 and the results of operations for the three and six month periods ended December 31, 1999 and 1998 and for the period from inception (January 28, 1986) to December 31, 1999 and cash flows for the six months ended December 31, 1999 and 1998, and for the period from inception (January 28, 1986) to December 31, 1999. 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, 2000.

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, 1999 and 1998 filed with the Company's Form 10-KSB/A for the year ended June 30, 1999.

(3) Summary of Significant Accounting Policies:

Principles of Consolidation -- The consolidated financial statements include the accounts of Palatin and its wholly owned inactive subsidiaries. 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, Cash Equivalents and Investments -- For purposes of presenting cash flows,
the Company considers cash and cash equivalents as amounts on hand, on deposit in financial institutions and liquid investments purchased with an original maturity of three months or less. The Company accounts for its investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting For Certain Investments in Debt and Equity Securities." The Company classifies such investments as available for sale investments and as such all investments are recorded at fair value. The investments consist of certificates of deposit. Realized gains and losses are recorded in the statement of operations in the period the transaction occurs. Unrealized gains and losses are classified as a separate component of stockholders' equity. As of December 31, 1999 the unrealized gain on investments was immaterial.

Fixed Assets -- Fixed assets consist of equipment, office furniture and leasehold improvements. Fixed assets are stated at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of 5 years for equipment, 7 years for office furniture and over the term of the lease for leasehold improvements. Maintenance and repairs are expensed as incurred while expenditures that extend the useful life of an asset are capitalized.

Impairment of Long-Lived Assets -- The Company complies with Statement of Financial Accounting Standards No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets.

Impairment is measured at fair value. Fair value is determined by an evaluation of available price information at which assets could be bought or sold including quoted market prices, if available, or the present value of the estimated discounted cash flows based on reasonable and supportable assumptions.

Revenue Recognition -- Grant and contract revenues are recognized as the Company provides the services stipulated in the underlying grants and/or contracts based on the time and materials incurred. License revenues are recognized when received and the Company has no future obligations.

In December 1999, the Securities and Exchange Commission issued the Staff Accounting Bulletin No. 101 - Revenue Recognition in Financial Statements (SAB 101). The bulletin draws on existing accounting rules and provides specific guidance on how those accounting rules should be applied and specifically addresses revenue recognition for non-refundable technology access fees in the biotechnology industry. SAB 101 is effective for fiscal years beginning after December 15, 1999. The Company is currently in the process of evaluating SAB 101 and the effect that it may have on the Company's financial statements. Accordingly, the Company has not determined whether SAB 101 will have a material impact on the financial position or results of operations of the Company.

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

Stock Options and Warrants -- Warrants and the majority of common stock options
have been issued at exercise prices greater than, or equal to, their fair market value at the date granted. Accordingly, no value has been assigned to these instruments.


The Company provides for deferred income taxes relating to timing differences in the recognition of income and expense items (primarily relating to depreciation, amortization and certain leases) for financial and tax reporting purposes. Such amounts are measured using current tax laws and regulations in accordance with the provisions of SFAS 109.

In accordance with SFAS 109, the Company has recorded a valuation allowance against the realization of its deferred tax assets. The valuation allowance is based on management's estimates and analysis, which includes tax laws which may limit the Company's ability to utilize its tax loss carryforwards.

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, 1999 and 1998 and for the period from inception (January 28, 1986) through December 31, 1999, 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 5,440,856 shares of common stock at prices ranging from $0.20 to $306 per share were outstanding at December 31, 1999.

Reclassifications -- Certain reclassifications have been made to the prior year financial statements to conform to the current year presentation.

Fair Value of Financial Instruments -- Statement of Financial Accounting Standards No. 107 ("SFAS 107"), "Disclosures about Fair Value of Financial Instruments," requires disclosures of fair value information about financial instruments, whether or not recognized in the balance sheet, for which it is practicable to estimate the value. In cases where quoted market prices are not available, fair values are based on estimates using present value or other valuation techniques. These techniques are significantly affected by the assumptions used, including discount rate and estimates of future cash flows. In that regard, the derived fair value estimates cannot be substantiated by comparison to independent markets and, in many cases, could not be realized in immediate settlement of the instrument. SFAS 107 excludes certain financial instruments and all non-financial instruments from its disclosure requirements. Accordingly, the aggregate fair value amounts presented do not represent the underlying value of the Company.
The following methods and assumptions were used by the Company in estimating its fair value disclosures for financial instruments: the carrying amount reported on the balance sheet approximates the fair value for cash, short-term borrowings and current maturities of long-term debt; and the fair value for the Company's fixed rate long-term debt is estimated based on the current rates offered to the Company for debt of the same remaining maturities. Based on the above, the amount reported on the balance sheet approximates the fair value.

New Accounting Pronouncements - Effective July 1, 1998, the Company adopted SFAS No. 130, "Reporting Comprehensive Income"("SFAS 130"). This statement requires companies to classify items of other comprehensive income by their nature in a financial statement and display the accumulated balance of other comprehensive income separately from retained earnings and additional paid-in capital in the equity section of a statement of financial position. For the three and six month periods ended December 31, 1999 and 1998, the Company's comprehensive income consists only of its net loss.

Effective July 1, 1998 the Company adopted SFAS No. 131, "Disclosure About Segments of an Enterprise and Related Information" ("SFAS 131"). This statement establishes additional standards for segment reporting in the financial statements. The Company operates in one industry segment and, accordingly, the adoption of SFAS 131 had no effect on the Company.

(4) Commitments and Contingencies:

Consulting Agreements - The Company is obligated under three consulting agreements to make payments totaling $112,800 in fiscal 2000. License Agreements - The Company has four license agreements that require minimum yearly payments. Future minimum payments under the license agreements are: 2000 - $200,000, 2001 - $150,000, 2002 - $200,000, 2003 - $200,000 and 2004 - $200,000.

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

(5) Stockholders' Equity:

On November 12, 1999, the Company announced that the Board of Directors of both Palatin and Molecular Biosystems, Inc. ("MBI"), have approved a definitive agreement to merge the two companies. The combined company will keep the Palatin name and be headquartered in Princeton, New Jersey. The definitive agreement specifies that the merger is subject to approval of the stockholders of both companies. Under the agreement, stockholders of MBI will receive 0.525 shares of Palatin Common stock for each share of MBI Common stock. The stock swap will be accounted for using the purchase method of accounting.


General

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes thereto filed as part of this
report. Unless otherwise indicated herein, all references to the Company include Palatin and its wholly owned inactive subsidiary, RhoMed. We make forward-looking statements in this report. Sometimes these statements contain words such as "anticipates," "plans," "intends," "expects" and similar expressions to identify forward-looking statements. These statements are not guarantees of our future performance. Our business involves known and unknown risks, uncertainties and other factors which may cause our actual results, performance or achievements to be materially different from what we say in this report. We describe a number of these factors in our annual report on Form 10-KSB for the year ended June 30, 1999. Given these uncertainties, you should not place undue reliance on these forward-looking statements, which speak only as of the date of this report. We will not revise these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

We expect to incur substantial operating losses over the next several years due to continuing expenses associated with our research and development programs, including pre-clinical testing, clinical trials and manufacturing. Operating losses may fluctuate from quarter to quarter as a result of differences in the timing of when we incur expenses.

Results of Operations

Three and Six Month Periods Ended December 31, 1999 Compared to Three and Six Month Periods Ended December 31, 1998.

Cash and cash equivalents - Cash, cash equivalents and short term investments increased to $8,280,818 at December 31, 1999 from $2,788,628 at December 31, 1998. The increase was due to the receipt of funds, approximately $11,450,000 net, from the collaboration agreement signed with Mallinckrodt, Inc. on August 17, 1999. Pursuant to the agreement we:

- Received $500,000 from a one-time, non-refundable exclusive worldwide license (excluding Europe) for sales, marketing and distribution of LeuTech.
- Received $13,000,000 from the sale of 700,000 restricted shares of our non-voting Series C convertible preferred stock.
- Paid $2,000,000 in principle as repayment of a Subordinated Non-negotiable Promissory Note from Mallinckrodt plus $46,489 in interest.

Accounts receivable - accounts receivable increased to $2,141,900 at December 31, 1999 from nothing at December 31, 1998. The increase was due to the recognition of contract revenue pursuant to our collaboration agreement with Mallinckrodt, see below.

Grants and contracts - We recorded $891,900 and $2,141,900, respectively, as contract revenue during the three and six month period ended December 31, 1999 related to the shared development costs and product direct costs of LeuTech, pursuant to our strategic collaboration agreement with Mallinckrodt. We also recorded $117,691 as grant revenue for the three and six months ended December 31, 1999. We completed two Phase I grants, previously awarded, under the Small Business Innovative Research program with the National Institutes of Health of the Department of Health and Human Services. We had no revenues from grants and contracts during the three and six month period ending December 31, 1998.

License Fees and Royalties - We recorded $500,000 in license fees as revenue
during the six month period ended December 31, 1999. We received these fees as a one-time, non-refundable payment pursuant to our strategic collaboration agreement with Mallinckrodt, Inc. We recognized $550,000 in license fees as revenue during the three and six month period ended December 31, 1998 related to the Company's license option agreement with Nihon Medi-Physics ("Nihon"). This $550,000 was recognized pursuant to a determination by both Nihon and the Company to change the development emphasis and termination of the original agreement. The Company is not required to perform any future services under this agreement.

Research and development - Research and development expenses increased to $2,375,659 for the three month period ended December 31, 1999 compared to $2,205,272 for the three month period ended December 31, 1998, and increased to $4,824,282 for the six month period ended December 31, 1999 compared to $4,342,863 for the six month period ended December 31, 1998. The increase in R & D spending is primarily related to development of LeuTech, including increased expenses for manufacturing scale-up, consulting and clinical trials. 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 increased to $1,536,250 for the three month period ended December 31, 1999 compared to $543,175 for the three month period ended December 31, 1998 and expenses increased to $2,305,684 for the six month period ended December 31, 1999 compared to $1,389,464 for the six month period ended December 31, 1998. The increase in general and administrative expenses was mainly attributable to the payment of performance bonuses and increase in salaries and increases to the Company's liability limits on various insurance policies as well as increases in consulting fees related to investor relations, human resources and information systems.

Interest income - Interest income increased to $115,074 for the three month period ended December 31, 1999 compared to $25,004 for the three month period ended December 31, 1998 and interest income increased to $186,389 for the six month period ended December 31, 1999 compared to $85,220 for the six month period ended December 31, 1998. The increase in interest income is primarily the result of the receipt of funds pursuant to the strategic collaboration agreement with Mallinckrodt, which increased funds available for investment purposes.

Interest expense - Interest expense decreased to $625 for the three month period ended December 31, 1999 compared to $23,601 for the three month period ended December 31, 1998 and interest expense decreased to $25,861 for the six month period ended December 31, 1999 compared to $57,600 for the six month period ended December 31, 1998. The decrease in interest expense is due to the repayment of notes payable and long term debt.

Net loss - Net loss increased to $2,787,869 for the three months ended December 31, 1999 compared to $2,197,043 for the three months period ended December 31, 1998. This increase is due to timing differences in recording expenses incurred and revenues earned. Overall, the net loss decreased to $4,209,847 for the six month period ended December 31, 1999 compared to $5,154,707 for the six month period ended December 31, 1998. The decrease is attributable to revenues earned
related to cost sharing provisions pursuant to the strategic collaboration agreement with Mallickrodt.

Liquidity and Capital Resources

Since inception, we have incurred net operating losses. As of December 31, 1999, we had a deficit accumulated during development stage of $39,532,211. We have financed our net operating losses through December 31, 1999 by a series of debt and equity financings. At December 31, 1999, we had cash, cash equivalents and short term investments of $8,280,818.

For the six months ended December 31, 1999, the net increase in cash was $3,812,774. Net cash used for operating activities was $5,408,241, net cash used for investing activities was $1,784,593 and net cash provided by financing activities was $11,005,608.

On November 12, 1999, the Company announced that the Board of Directors of both Palatin and MBI have approved a definitive agreement to merge the two companies. The combined company will keep the Palatin name and be headquartered in Princeton, New Jersey. The definitive agreement specifies that the merger is subject to approval of the stockholders of both companies. Under the agreement, stockholders of MBI will receive 0.525 shares of Palatin Common stock for each share of MBI Common stock. The stock swap will be accounted for using the purchase method of accounting. Upon completion of the transaction, stockholders of Palatin and the former stockholders of MBI will each own approximately 50% of the combined company calculated on a diluted basis using the treasury method.

As of August 17, 1999, we entered into a strategic collaboration agreement with Mallinckrodt, a large international healthcare products company, to jointly develop, manufacture, market and sell LeuTech. Under the terms of the agreement, Mallinckrodt:

- received an exclusive worldwide license (excluding Europe) for sales, marketing and distribution of LeuTech and paid a licensing fee of $500,000;

- agreed to make milestone payments totaling $10,000,000 upon FDA approval of the first LeuTech indication and upon the attainment of certain sales goals following product launch;

- agreed to reimburse Palatin for 50% of all ongoing LeuTech development costs, subject to a cap, which can be amended;

- agreed to pay to Palatin a transfer price for each LeuTech product unit delivered to Mallinckrodt and a quarterly royalty on Mallinckrodt’s future net sales of LeuTech;

- purchased 700,000 restricted shares of Palatin’s non-voting Series C convertible preferred stock for $13,000,000;

- agreed that the Series C convertible preferred stock purchased by them would be convertible after five years, or earlier upon the occurrence of a change in control in Palatin (as defined in the agreement), into
700,000 shares of our common stock with certain registration rights and anti-dilution rights.

Effective December 7, 1999, we entered into a five-year lease on administrative offices in Princeton, New Jersey. Minimum future lease payments are range from approximately $187,374 in year one to approximately $202,070 in year five.

In March 1997, we 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.

We have entered into four license agreements, which require minimum yearly payments. Future minimum fiscal year payments under the license agreements are as follows: 2000 - $200,000, 2001 - $150,000, 2002 - $200,000, 2003 - $200,000 and 2004 - $200,000.

We are and expect to continue actively searching for certain products and technologies to license or acquire, now or in the future. If we are successful in identifying a product or technology for acquisition, we may require substantial funds for such an acquisition and subsequent development or commercialization. We do not know whether any acquisition will be consummated in the future.

We have incurred negative cash flows from operations since our inception, and have expended, and expect to continue to expend in the future, substantial funds to complete our planned product development efforts. We expect that our existing capital resources will be adequate to fund our projected operations through March 31, 2001, based on current expenditure levels.

We anticipate incurring additional losses over at least the next several years, and we expect our losses to increase as we expand our research and development activities relating to LeuTech, PT-14 and our MIDAS technology. To achieve profitability, we, alone or with others, must successfully develop and commercialize our 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 we do not know whether we will be able to achieve profitability on a sustained basis, if at all.

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 believes that it does not have significant year 2000 issues related to its computerized information systems. It is possible that certain computer systems or software products of its 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, its assessment of these year 2000 issues related to its suppliers and contractors is minimal. As of the date hereof, the Company has not experienced any material year 2000 problems, either related to its own systems or software products or those of third party providers.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.
None.

Item 2. Changes in Securities and Use of Proceeds.
None.

Item 3. Defaults Upon Senior Securities.
None.

Item 4. Submission of Matters to a Vote of Security Holders.
None.

Item 5. Other Information.
None.

Item 6. Exhibits and Reports on Form 8-K.
(a) Exhibits
27 Financial Data Schedule

(b) Reports on Form 8-K

During the quarter ended December 31, 1999, we filed one report on Form 8-K. On November 30, 1999, we filed a report dated November 12, 1999, containing Item 5, Other Information, and Item 7, Exhibits. Item 5 reported our announcement of a merger agreement with Molecular Biosystems, Inc. The Item 7 exhibits were our press release concerning the merger and the agreement and plan of merger.
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 14, 2000                 Edward J. Quilty
Chairman of the Board
and Chief Executive Officer

/s/ Stephen T. Wills
---------------------------------
Date: February 14, 2000                 Stephen T. Wills
Vice President and Chief Financial
Officer (Principal Financial and
Accounting Officer)

EX-27
2
FDS -- 6 MONTHS ENDED 12/31/99

This schedule contains summary financial information extracted from the registrant's unaudited consolidated financial statements for the six month period ended December 31, 1999 and is qualified in its entirety by reference to those financial statements.

U.S. Dollars

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>6 MOS</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>6,601,402</td>
<td>1,679,416</td>
<td>2,141,900</td>
</tr>
</tbody>
</table>

--- END PRIVACY-ENHANCED MESSAGE ---