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

FORM 10-Q

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

For the quarterly period ended March 31, 2004

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 registrant as specified in its charter)
Indicate by check mark whether the Registrant (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 Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.  Yes [X]  No [  ]

Check whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).  Yes [ ]  No [X]

As of May 13, 2004, 52,668,338 shares of the issuer's common stock, par value $.01 per share, were outstanding.

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**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)

March 31, 2004       June 30, 2003

<table>
<thead>
<tr>
<th>ASSETS</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current assets:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and cash equivalents</td>
<td>$ 23,238,251</td>
<td>$ 14,294,603</td>
</tr>
<tr>
<td>Contracts receivable</td>
<td>26,258</td>
<td>-</td>
</tr>
<tr>
<td>Available for sale investments</td>
<td>3,913,014</td>
<td>4,088,384</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>146,320</td>
<td>347,510</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>27,323,843</td>
<td>18,730,497</td>
</tr>
<tr>
<td>Property and equipment, net</td>
<td>3,030,053</td>
<td>3,399,181</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>428,075</td>
<td>428,075</td>
</tr>
<tr>
<td>Other</td>
<td>172,801</td>
<td>163,381</td>
</tr>
<tr>
<td><strong>Total assets</strong></td>
<td>$30,954,772</td>
<td>$ 22,721,134</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>LIABILITIES AND STOCKHOLDERS’ EQUITY</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Current liabilities:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current portion of long term debt, including capital leases</td>
<td>$ 81,373</td>
<td>$ 188,015</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>2,254,488</td>
<td>1,344,789</td>
</tr>
<tr>
<td>Accrued expenses</td>
<td>1,979,782</td>
<td>1,619,382</td>
</tr>
<tr>
<td>Accrued compensation</td>
<td>200,000</td>
<td>428,500</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>252,339</td>
<td>407,420</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>4,767,982</td>
<td>3,988,106</td>
</tr>
<tr>
<td>Long term debt, including capital leases</td>
<td>32,864</td>
<td>76,432</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Commitments and contingencies (Note 5)</th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Stockholders’ equity:</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock of $.01 par value - authorized 10,000,000 shares; Series A Convertible; issued and outstanding 11,947 and 14,867 shares as of March 31, 2004 and June 30, 2003, respectively;</td>
<td>119</td>
<td>149</td>
</tr>
<tr>
<td>Common stock of $.01 par value - authorized 75,000,000 shares; issued and outstanding 52,668,359 and 42,994,050 shares as of March 31, 2004 and June 30, 2003, respectively</td>
<td>526,684</td>
<td>429,941</td>
</tr>
<tr>
<td>Additional paid-in capital</td>
<td>136,034,512</td>
<td>109,085,115</td>
</tr>
<tr>
<td>Deferred compensation</td>
<td>(124,134)</td>
<td>(37,977)</td>
</tr>
<tr>
<td>Accumulated other comprehensive loss</td>
<td>(137,126)</td>
<td>(11,805)</td>
</tr>
<tr>
<td>Deficit accumulated during development stage</td>
<td>(110,146,129)</td>
<td>(90,808,827)</td>
</tr>
<tr>
<td><strong>Total stockholders’ equity</strong></td>
<td>26,153,926</td>
<td>18,656,596</td>
</tr>
</tbody>
</table>
Total liabilities and stockholders' equity

<table>
<thead>
<tr>
<th></th>
<th>$ 30,954,772</th>
<th>$ 22,721,134</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>=============</td>
<td>=============</td>
</tr>
</tbody>
</table>

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

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

**Consolidated Statements of Operations**
(unaudited)

Inception
(January 28, 1986)

<table>
<thead>
<tr>
<th></th>
<th>2004</th>
<th>2003</th>
<th>2004</th>
<th>2003</th>
<th>through March 31, 2004</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>REVENUES:</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>$ 149,738</td>
<td>$ 181,417</td>
<td>$ 2,149,738</td>
<td>$ 641,417</td>
<td>$ 12,415,249</td>
</tr>
<tr>
<td>License fees</td>
<td>31,016</td>
<td>148,878</td>
<td>155,081</td>
<td>545,887</td>
<td>2,885,068</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>318,917</td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>180,754</td>
<td>330,295</td>
<td>2,304,819</td>
<td>1,187,304</td>
<td>15,619,234</td>
</tr>
</tbody>
</table>

|                        |        |        |        |        |                        |
| **OPERATING EXPENSES:**|        |        |        |        |                        |
| Research and development | 7,127,006 | 4,744,379 | 17,959,723 | 12,015,910 | 90,372,226             |
| General and administrative | 1,164,992 | 1,280,305 | 4,168,322 | 3,651,738 | 36,416,222             |
| Net intangibles write down | -      | -      | -      | -      | 259,334               |
| **Total operating expenses** | 8,291,998 | 6,024,684 | 22,128,045 | 15,667,648 | 127,047,782              |

|                        |        |        |        |        |                        |
| **OTHER INCOME (EXPENSES):** |        |        |        |        |                        |
| Interest income        | 88,297 | 50,120 | 261,389 | 147,079 | 2,962,521              |
| Interest expense        | (4,535) | (7,310) | (16,302) | (14,462) | (1,997,481)            |
| Merger costs           | -      | -      | -      | -      | (525,000)              |
| **Total other income (expenses)** | 83,763 | 42,810 | 245,087 | 132,617 | 440,040                |

|                        |        |        |        |        |                        |
| Loss before income taxes and cumulative effect of accounting change | (8,027,481) | (5,651,579) | (19,578,139) | (14,347,727) | (110,988,508) |
| Income tax benefit     | -      | -      | 240,836 | 245,093 | 1,203,490              |
| **Loss before cumulative effect of accounting change** | (8,027,481) | (5,651,579) | (19,337,303) | (14,102,634) | (109,785,018) |
| Cumulative effect of accounting change | - | - | - | - | (361,111) |
| **NET LOSS**           | (8,027,481) | (5,651,579) | (19,337,303) | (14,102,634) | (110,146,129) |
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PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)

**Consolidated Statements of Cash Flows**
(unaudited)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Net loss</td>
<td>$(19,337,303)</td>
<td>$(14,102,634)</td>
</tr>
<tr>
<td>Adjustments to reconcile net loss to net cash used for operating activities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cumulative effect of accounting change</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>486,715</td>
<td>434,502</td>
</tr>
<tr>
<td>License fee</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Interest expense and accrued interest on note payable and financings</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Intangibles and equipment write down</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Common stock and notes payable issued for expenses</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Settlement with consultant</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Acceleration of options previously granted</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Stock based compensation</td>
<td>858,982</td>
<td>18,872</td>
</tr>
<tr>
<td>Deferred revenue</td>
<td>(155,081)</td>
<td>(303,887)</td>
</tr>
<tr>
<td>Changes in certain operating assets and liabilities:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contracts receivable</td>
<td>(26,258)</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>183,039</td>
<td>(308,418)</td>
</tr>
<tr>
<td>Accounts payable</td>
<td>909,699</td>
<td>(193,841)</td>
</tr>
<tr>
<td>Accrued expenses and other</td>
<td>131,900</td>
<td>665,114</td>
</tr>
<tr>
<td>Net cash used for operating activities</td>
<td>(16,948,307)</td>
<td>(13,790,292)</td>
</tr>
</tbody>
</table>
CASH FLOWS FROM INVESTING ACTIVITIES:
Sales/maturities of investments 50,049 49,966 2,168,650
Purchases of investments - (2,000,000) (6,261,061)
Purchases of property and equipment (108,856) (1,019,289) (6,050,606)
Net cash provided/(used) for investing activities (58,807) (2,969,323) (10,143,017)

CASH FLOWS FROM FINANCING ACTIVITIES:
Proceeds from notes payable and other long-term debt - - 6,103,327
Payments on notes payable and other long-term debt - - (4,103,327)
Payments on capital lease obligations (150,210) (158,441) (303,683)
Proceeds from common stock, stock option
and warrant issuances, net 26,100,972 31,365,631 101,689,745
Proceeds from preferred stock, net - - 24,210,326
Purchase of treasury stock - - (1,667)
Net cash provided by financing activities 25,950,762 31,207,190 127,594,721

NET INCREASE IN CASH AND CASH EQUIVALENTS 8,943,648 14,447,575 23,238,251
CASH AND CASH EQUIVALENTS, beginning of period 14,294,603 7,944,264 -
CASH AND CASH EQUIVALENTS, end of period $ 23,238,251 $ 22,391,839 $ 23,238,251

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 biopharmaceutical company. The Company does not currently offer any products for sale. The Company is primarily focused on developing melanocortin (MC)-based therapeutics, which the Company believes is one of the fastest growing areas of pharmaceutical research and development. The MC family of receptors has been identified with a variety of conditions and diseases, including sexual dysfunction, obesity, cachexia
(extreme wasting, generally secondary to a chronic disease), and inflammation. The Company's objective is to become a worldwide leader in MC-based therapeutics by pursuing a strategy based on commercializing the Company's products under development and identifying new product targets through the utilization of the Company's patented drug discovery platform.

PT-141, the Company's lead therapeutic drug candidate, is a patented, nasally administered peptide that is in clinical development for the treatment of both male and female sexual dysfunction. The Company completed various Phase 1 safety studies and Phase 2A efficacy studies in male subjects and patients. The Company completed a Phase 2B at-home dose-ranging study with PT-141 in male patients. The Company also completed a Phase 1 safety study in female subjects. LeuTech® is the Company's proprietary radiolabeled monoclonal antibody for imaging and diagnosing infections. The Company commenced the biologics license application (BLA) amendment filings for equivocal appendicitis to the Food and Drug Administration (FDA) in the first half of calendar year 2003, filed a majority of the responses to the FDA in September 2003 and remitted the final BLA amendment filing to the FDA in the first quarter of calendar year 2004. The Company expects to receive a complete response from the FDA regarding its BLA amendment filings in the second quarter of calendar year 2004. The Company is also conducting additional clinical trials with LeuTech to expand its market potential as an imaging agent for other indications such as osteomyelitis (infection deep inside a bone), fever of unknown origin, post-surgical abscess, inflammatory bowel disease and pulmonary imaging. In addition, the Company has several preclinical drug candidates under investigation based on the MC family of receptors for various therapeutic indications including sexual dysfunction, obesity, cachexia and inflammation.

Key elements of the Company's business strategy include: entering into alliances and partnerships with pharmaceutical companies to facilitate the development, manufacture, marketing, sale and distribution of the Company's product candidates under investigation; expansion of the Company's pipeline through the utilization of its MC expertise and patented drug discovery platform; and opportunistic acquisition of synergistic products and technologies and partial funding of the Company's development programs with the cash flow from our LeuTech collaboration agreement.

Business Risk and Liquidity – As shown in the accompanying financial statements, the Company incurred a substantial net loss of $19,337,303 for the nine months ended March 31, 2004 and has a deficit accumulated during development stage of $110,146,129, cash and cash equivalents of $23,238,251 and investments of $3,913,014 as of March 31, 2004. The Company anticipates incurring additional losses in the future as it continues development of LeuTech for diagnosis of appendicitis and expands clinical trials for other indications of LeuTech and
continues research and development of PT-141 and its MIDAS™ (Metal Ion-induced Distinctive Array of Structures) technology. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, by conducting pre-clinical studies and clinical trials, obtaining 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 has incurred negative cash flows from operations since its inception. In addition, the Company has expended, and expects to continue to expend in the future, substantial funds to complete its planned product development efforts. The Company believes its existing capital resources will be adequate to fund its projected operations through the fiscal year ending June 30, 2005, based on current and projected expenditure levels. No assurance can be given that the Company will not consume a significant amount of its available resources before that time. 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 through strategic collaboration agreements or other resources. Should appropriate sources of financing not be available, management would delay certain clinical trials and research activities until such time as appropriate financing was available. There can be no assurance that the Company's financing efforts will be successful. If adequate funds are not available, the Company's financial condition and results of operations will be materially and adversely affected.

(2) Basis of Presentation:

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnote disclosures required to be presented for complete financial statements. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the financial position as of March 31, 2004 and the results of operations for the three and nine month periods ended March 31, 2004 and 2003 and for the period from inception (January 28, 1986) to March 31, 2004, and cash flows for the nine month periods ended March 31, 2004 and 2003 and for the period from inception (January 28, 1986) to March 31, 2004. The results of operations for the nine month period ended March 31, 2004 may not necessarily be indicative of the results of operations expected for the full year, however the Company does expect to incur a significant loss for the fiscal year ending June 30, 2004.

The accompanying consolidated financial statements should be read in conjunction with the audited financial statements and notes thereto included in our annual report on Form 10-K, filed with the Securities and Exchange Commission, which includes
consolidated financial statements as of June 30, 2003 and 2002 and for each of the three fiscal years in the period ended June 30, 2003.

(3) **Summary of Significant Accounting Policies:**

*Principles of Consolidation* – The consolidated financial statements include the accounts of Palatin and its wholly-owned subsidiaries, which are inactive. All significant intercompany accounts and transactions have been eliminated in consolidation.

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*Use of Estimates* – The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States of America 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.

*Statements of Cash Flows* – Cash and cash equivalents include cash on hand, cash in banks and all highly liquid investments with an original maturity of less than three months at time of purchase. As of March 31, 2004 and June 30, 2003, approximately $428,000 of cash was restricted to secure letters of credit for security deposits on leases.

*Investments* – 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 principally of corporate debt securities and mutual funds. Unrealized holding gains and losses, net of the related tax effect, if any, are excluded from earnings and are reported in other comprehensive loss and as a separate component of stockholders’ equity until realized. Interest earned on securities classified as available for sale is included in interest income. Realized gains and losses are recorded in the statement of operations in the period that the transaction occurs.

The following is a summary of available for sale investments as of March 31, 2004:

<table>
<thead>
<tr>
<th></th>
<th>Gross Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Corporate debt securities</td>
<td>$50,000</td>
<td>$895</td>
<td>-</td>
<td>$50,895</td>
</tr>
<tr>
<td>Mutual funds</td>
<td>4,000,140</td>
<td>-</td>
<td>138,021</td>
<td>3,862,119</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$4,050,140</td>
<td>$895</td>
<td>138,021</td>
<td>$3,913,014</td>
</tr>
</tbody>
</table>

---
The following is a summary of available for sale investments as of June 30, 2003:

<table>
<thead>
<tr>
<th>Gross Cost</th>
<th>Gross Unrealized Gains</th>
<th>Gross Unrealized Losses</th>
<th>Fair Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>100,000</td>
<td>2,243</td>
<td>-</td>
<td>102,243</td>
</tr>
<tr>
<td>4,000,189</td>
<td>-</td>
<td>14,048</td>
<td>3,986,141</td>
</tr>
</tbody>
</table>

8,088,384

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Impairment of Long-Lived Assets – 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, management evaluates whether future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If impairment is indicated, the amount of the impairment is measured based on the difference between the carrying amount of the asset and its 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 estimated future 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. Revenue from corporate collaborations and licensing agreements consists of up-front fees, research and development funding, and milestone payments. Non-refundable up-front fees are deferred and amortized to revenue over the related performance period. The Company estimates the performance period as the initial research term. The actual performance period may vary. The Company will adjust the performance period estimate based upon available facts and circumstances. Periodic payments for research and development activities and government grants are recognized over the period that the Company performs the related activities under the terms of the agreements. Revenue resulting from the achievement of milestone events stipulated in the agreements is recognized when the milestone is achieved. Milestones are based on the occurrence of a substantive element specified in the contract or as a measure of substantive progress towards completion under the contract.

The Company recognized $149,738 in grant revenue pursuant to the Small Business Technology Transfer programs of the Department of Health and Human Services for the three and nine months ended March 31, 2004 compared to $137,417 for the three and nine months ended March 31, 2003.
The Company recognized nothing and $2,000,000, respectively, for the three and nine months ended March 31, 2004 in contract revenue related to the attainment of certain milestones related to LeuTech pursuant to our collaboration agreement, as amended, with Mallinckrodt, Inc., a division of Tyco International, Ltd., described below, compared to $44,000 and $504,000, respectively, for the three and nine months ended March 31, 2003.

In August 1999, the Company entered into a strategic collaboration agreement with Mallinckrodt to jointly develop and market one of its proposed products. Under the terms of the agreement, the Company granted a worldwide license, excluding Europe, for sales, marketing and distribution and received a non-refundable licensing fee of $500,000. The licensing fee was recognized as revenue in the period that such non-refundable fees were received.

In fiscal 2001, the Company adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101, “Revenue Recognition in Financial Statements” (“SAB 101”) which requires up front, non-refundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 resulted in a one-time, non-cash charge of $361,111 or $0.04 per share, which reflects the deferral of the $500,000 up-front license fee received from Mallinckrodt in August 1999. Under SAB 101, this payment has been recorded as deferred revenue to be recognized as license revenue over the remaining development term of this agreement. For the three and nine months ended March 31, 2004, the Company recognized $2,170 and $10,851, respectively, in license revenue that was included in the cumulative effect adjustment as of July 1, 2000, compared to $10,418 and $38,199, respectively, for the three and nine months ended March 31, 2003.

In May 2002, the Company entered into an agreement with Mallinckrodt to amend the original agreement. Under the terms of this amended agreement, Mallinckrodt committed, among other things, up to an additional $3.2 million, subject to certain conditions and attainment of certain milestones, to cover half of the Company’s estimated expenses associated with completing the FDA review process of LeuTech. Pursuant to, and upon execution of this amendment, $800,000 was received. Under SAB 101, this payment has been recorded as deferred revenue to be recognized as license revenue over the remaining development term of this agreement. For the three and nine months ended March 31, 2004, the Company recognized $28,846 and $144,230, respectively, in license revenue under this agreement, compared to $138,460 and $507,688, respectively, for the three and nine months ended March 31, 2003. The $3.2 million has been paid in full as of March 31, 2004.

**Research and Development Costs** – The costs of research and development activities are charged to expense as incurred.
**Stock Options** – The Company applies the intrinsic-value-based method of accounting prescribed by Accounting Principles Board Opinion No. 25, “Accounting for Stock Issued to Employees” (“APB 25”), and related interpretations, to account for its fixed-plan stock options. Under this method, compensation expense is recorded on the date of grant only if the current market price of the underlying stock exceeded the exercise price. Statement of Financial Accounting Standards No. 123, “Accounting for Stock-Based Compensation” (“SFAS 123”), established accounting and disclosure requirements using a fair-value-based method of accounting for stock-based employee compensation plans. As permitted by SFAS 123, as amended in Statement of Financial Accounting Standards No. 148, “Accounting for Stock-Based Compensation — Transition and Disclosure, an Amendment of FASB Statement No. 123” (“SFAS 148”), the Company has elected to continue to apply the intrinsic-value-based method of accounting described above, and has adopted only the disclosure requirements of SFAS 123.

The Company applies APB 25 and the related interpretations in accounting for its stock option plans. Had compensation cost for the Company's common stock options been determined based upon the fair value of the options at the date of grant, as prescribed under SFAS 123, as amended by SFAS 148, the Company's net loss attributable to common stockholders and net loss per common share would have been equal to the following pro forma amounts:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31</th>
<th>Nine Months Ended March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2004</td>
<td>2003</td>
</tr>
<tr>
<td>Net loss attributable to common stockholders:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>As reported</td>
<td>$(8,027,481)</td>
<td>$(5,738,918)</td>
</tr>
<tr>
<td>Stock based employee compensation expense included in the determination of net loss as reported</td>
<td>-</td>
<td>778,815</td>
</tr>
<tr>
<td>Impact of total stock-based compensation expense determined under fair-value-based method</td>
<td>(261,051)</td>
<td>(1,739,876)</td>
</tr>
<tr>
<td>Pro forma</td>
<td>$(8,288,532)</td>
<td>$(20,298,364)</td>
</tr>
</tbody>
</table>

Basic and diluted net loss per common share:

<table>
<thead>
<tr>
<th></th>
<th>Three Months Ended March 31</th>
<th>Nine Months Ended March 31</th>
</tr>
</thead>
<tbody>
<tr>
<td>As reported</td>
<td>$ (0.16)</td>
<td>$ (0.42)</td>
</tr>
<tr>
<td>Impact of stock-based compensation</td>
<td>-</td>
<td>(0.02)</td>
</tr>
<tr>
<td>Pro forma</td>
<td>$ (0.16)</td>
<td>$ (0.44)</td>
</tr>
</tbody>
</table>

The assumptions used in the Black-Scholes option-pricing model are as follows: dividend yield of 0%, weighted average risk-free interest rate of 2.61% in 2004 and 2.90% in 2003, expected volatility of 91.6% in 2004 and 101% in 2003, and an expected option life of seven years.

The Company provides for deferred income taxes relating to temporary 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 carry forwards.

Net Loss per Common Share – The Company applies Statement of Financial Accounting Standards No. 128, “Earnings per Share” (“SFAS 128”). 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 net income (loss) attributable to common stockholders 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 and warrants. For the three and nine months ended March 31, 2004 and 2003, 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 12,638,184 shares of common stock at prices ranging from $0.01 to $21.70 per share were outstanding at March 31, 2004.

Accrued Expenses:

Accrued expenses consist of the following:

<table>
<thead>
<tr>
<th></th>
<th>March 31, 2004</th>
<th>June 30, 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product development costs</td>
<td>$1,433,000</td>
<td>$ 784,007</td>
</tr>
<tr>
<td>Accrued rent</td>
<td>387,179</td>
<td>397,872</td>
</tr>
<tr>
<td>Other</td>
<td>159,603</td>
<td>437,503</td>
</tr>
<tr>
<td></td>
<td>$1,979,782</td>
<td>$1,619,382</td>
</tr>
</tbody>
</table>

Commitments and Contingencies:

Leases – The Company currently leases two facilities in New Jersey under non-cancelable operating leases and is seeking to terminate one of those leases, which is for...
the Company's former corporate offices located in Princeton. In July 2002, the Company moved into a new facility in Cranbury, New Jersey that combined both the research and development facility in Edison, New Jersey and corporate offices in Princeton, New Jersey.

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As of March 31, 2004, the Company had accrued approximately $32,000 related to the Company's share of estimated costs until termination of the Princeton lease, which is currently being subleased and is scheduled to expire in December 2004.

Capital Leases – In September 2002, the Company acquired $417,920 of laboratory equipment under capital leases. The original term of these leases range from 24 to 60 months. As of March 31, 2004, $114,237 of principal payments remains outstanding pursuant to these lease obligations.

License Agreements – The Company has three license agreements that require minimum yearly payments. The cost to maintain these license agreements for the fiscal year ending June 30, 2004 amounts to $250,000, which was expensed during the nine months ended March 31, 2004 under these agreements.

(6) Stockholders’ Equity:

In January 2004, the Company completed a private placement of its common stock and warrants, which yielded gross proceeds of approximately $22.7 million (net proceeds of approximately $21.0 million). Investors purchased 6,992,500 shares of common stock at $3.25 per share and received five year warrants to purchase 1,048,875 shares of common stock at an exercise price of $4.06 per share.

(7) Income Tax Benefit:

In December 2003 and December 2002, the Company sold New Jersey net operating losses pursuant to the New Jersey Economic Development Authority's Tax Transfer Program. As a result, the Company received $240,836 and $245,093, respectively, which is reflected as an income tax benefit in the consolidated statements of operations.
The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes filed as part of this report.

Statements in this quarterly report on Form 10-Q, as well as oral statements that may be made by Palatin or by officers, directors, or employees of Palatin acting on Palatin’s behalf, that are not historical facts constitute “forward-looking statements” which are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934. The forward-looking statements in this quarterly report on Form 10-Q do not constitute guarantees of future performance. Shareholders are cautioned that statements which are not strictly historical statements contained in this quarterly report on Form 10-Q including, without limitation, current or future financial performance, management’s plans and objectives for future operations, clinical trials and results, product plans and performance, management’s assessment of market factors, as well as statements regarding the strategy and plans of the Company and its strategic partners, constitute forward-looking statements. Such forward-looking statements involve known and unknown risks, uncertainties and other factors that could cause the actual results of the Company to be materially different from the historical results or from any results expressed or implied by such forward-looking statements. The Company's future operating results are subject to risks and uncertainties and are dependent upon many factors, including, without limitation, the risks identified in our annual report on Form 10-K for the year ended June 30, 2003, as well as in our other Securities and Exchange Commission filings.

We expect to incur additional losses in the future as we continue development of LeuTech for diagnosis of appendicitis and expand clinical trials for other indications of LeuTech and continue research and development of PT-141 and our MIDAS technology. Operating losses may fluctuate from quarter to quarter as a result of differences in the timing of when we incur expenses.

Critical Accounting Policies

Our significant accounting policies are described in Note 3 to the consolidated financial statements included in this report. We believe our most critical accounting policy is revenue recognition. Revenue from corporate collaborations and licensing agreements consists of up-front fees, research and development funding, and milestone payments. Non-refundable up-front fees are deferred and amortized to revenue over the related performance period. We estimate our performance period as the initial research term. The actual performance period may vary. We adjust the performance period estimate based upon available facts and circumstances. Periodic payments for research and development activities and government grants are recognized over the period that we perform the related activities under the terms of the agreements. Revenue resulting from the achievement of milestone events stipulated in the agreements is recognized when the milestone is achieved. Milestones are based on the occurrence of a substantive element specified in the contract or as a measure of substantive progress towards completion under the contract.
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Overview

We are a development-stage biopharmaceutical company primarily focused on developing melanocortin (MC)-based therapeutics, which we believe is one of the fastest growing areas of pharmaceutical research and development. The MC family of receptors has been identified with a variety of conditions and diseases, including sexual dysfunction, obesity, cachexia (extreme wasting, generally secondary to a chronic disease), and inflammation. Our objective is to become a worldwide leader in MC-based therapeutics by pursuing a strategy based on commercializing our products under development and identifying new product targets through the utilization of our patented drug discovery platform.

PT-141, our lead therapeutic drug candidate, is a patented, nasally administered peptide that is in clinical development for the treatment of both male and female sexual dysfunction. We have completed various Phase 1 safety studies and Phase 2A efficacy studies in male subjects and patients. We have completed a Phase 2B at-home dose-ranging study with PT-141 in male patients. We have also completed a Phase 1 safety study in female subjects. LeuTech® is our proprietary radiolabeled monoclonal antibody for imaging and diagnosing infections. We commenced the biologics license application (BLA) amendment filings for equivocal appendicitis to the Food and Drug Administration (FDA) in the first half of calendar year 2003, filed a majority of the responses to the FDA in September 2003 and remitted the final BLA amendment filing to the FDA in the first quarter of calendar year 2004. We expect to receive a complete response from the FDA regarding its BLA amendment filings in the second quarter of calendar year 2004. We are also conducting additional clinical trials with LeuTech to expand its market potential as an imaging agent for other indications such as osteomyelitis (infection deep inside a bone), fever of unknown origin, post-surgical abscess, inflammatory bowel disease and pulmonary imaging. In addition, we have several preclinical drug candidates under investigation based on the MC family of receptors for various therapeutic indications including sexual dysfunction, obesity, cachexia and inflammation.

Products and Technologies in Research and Development

We do not currently offer any products for sale. We are concentrating our efforts on the following proposed products and indications:

PT-141. PT-141, our lead therapeutic drug candidate, is a patented, nasally administered peptide that is under investigation for the treatment of both male erectile dysfunction (MED) and female sexual arousal disorders (FSAD). We have completed various Phase 1 safety studies and Phase 2A efficacy studies in male subjects and patients. We have completed a Phase 2B at-home dose-ranging study with PT-141 in male patients.
We have also completed a Phase 1 safety study in female subjects. PT-141 is a synthetic analog of the naturally occurring hormone alpha-MSH (melanocyte-stimulating hormone). It is an MC receptor-based therapeutic. The MSH class of hormones are potent regulators of a variety of physiological and behavioral functions, including the natural physiological sexual response. Our research suggests that PT-141 works through activation of MC receptors in the central nervous system rather than acting directly on the vascular system, which is a different mechanism of action from currently marketed MED therapies. As a result, it may offer significant safety and therapeutic benefits over currently marketed products.

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MED is defined as the consistent inability to attain and maintain an erection sufficient for sexual intercourse. The condition is correlated with increasing age, cardiovascular disease, hypertension, diabetes, hyperlipidemia and smoking. In addition, certain prescription drugs and psychogenetic issues may contribute to MED. According to the Massachusetts Male Aging Study, more than 50% of men aged 40-70 report episodes of MED and more than 30 million men in the United States may be afflicted with some form of MED, with less than 20% seeking treatment. The current market size for MED is estimated to be more than $2 billion per year. FSAD is a multifactorial condition that has anatomical, physiological, medical, psychological and social components. Studies estimate FSAD is prevalent in approximately 50% of women over the age of 30 and that greater than 35 million women in the United States may be afflicted with some form of FSAD. Female sexual dysfunction includes disorders associated with desire, arousal, orgasm and pain. There is tremendous competition to develop, market and sell drugs for the treatment of MED and FSAD.

LeuTech®. LeuTech is a proprietary, radiolabeled monoclonal antibody under investigation for imaging and diagnosing infections. When injected into the blood stream, LeuTech binds to white blood cells present at the infection site, labeling these cells with a radioactive tracer. As a result, physicians can rapidly image and detect an infection using a gamma camera, a common piece of hospital equipment that records radioactivity. LeuTech offers the advantage of direct injection and in-vivo labeling of white blood cells leading to a rapid and highly specific functional image of an infection in less than an hour, whereas the current standard of care, ex-vivo labeled white blood cells, requires a blood sample to be taken from the patient, processed by a nuclear pharmacy and then re-injected into the patient, with diagnostic images not available until 12-24 hours later.

In December 1999, the FDA accepted our LeuTech BLA for the diagnosis of appendicitis in patients with equivocal signs and symptoms. In July 2000, the FDA Medical Imaging Drugs Advisory Committee (MIDAC) unanimously voted that LeuTech is safe and effective for use in the diagnosis of appendicitis in patients with equivocal signs and symptoms and that the data presented support the clinical utility of LeuTech in managing
these patients. In September 2000, we received a complete response letter from the FDA where they determined that the efficacy and safety data were complete, yet additional manufacturing and process validation data were required prior to final approval. We commenced the BLA amendment filings to the FDA in the first half of calendar year 2003 and remitted the final BLA amendment filing to the FDA in the first quarter of 2004. We expect to receive a complete response from the FDA regarding our BLA amendment filings in the second quarter of calendar year 2004.

We are currently conducting Phase 2 studies with LeuTech for detection of other infections, including osteomyelitis, fever of unknown origin, post-surgical abscess, inflammatory bowel disease and pulmonary imaging.

Each year, more than 250,000 Americans are diagnosed with the infection, acute appendicitis. A timely and accurate diagnosis of this infection is crucial to ensure timely treatment and to prevent complications for the patient. A delay can entail hospital observation, outpatient treatment or surgery and can lead to increased risk of peritonitis, sepsis and other complications. Conversely, a misdiagnosed patient may experience unneeded hospital observation or unneeded surgery, which is expensive, inconvenient and utilizes limited resources. Every year, more than 350,000 patients present with equivocal appendicitis — this is when a specific diagnosis is uncertain and further testing is needed. In this situation, it is not always clear if the patient has appendicitis or another medical problem; nor is it exactly clear where the site of infection is located.

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We believe that LeuTech may improve patient diagnosis for appendicitis and that it has the potential to improve diagnosis of other acute and chronic infections, such as osteomyelitis, fever of unknown origin, post-surgical abscess, inflammatory bowel disease and pulmonary imaging.

Strategic Collaboration Agreement with Mallinckrodt. On May 13, 2002, we entered into an agreement with Mallinckrodt, Inc., a division of Tyco International, Ltd., to amend our Strategic Collaboration Agreement dated as of August 17, 1999. Under the terms of the original agreement, in addition to other provisions, Mallinckrodt paid us a licensing fee of $500,000 and an additional $13 million to purchase 700,000 restricted unregistered shares of our preferred stock. We shared LeuTech development expenses prior to FDA approval equally with Mallinckrodt. Mallinckrodt agreed to pay us milestone payments of an additional $10 million on FDA approval of the first LeuTech indication and on attainment of certain sales goals following product launch. We agreed to be responsible for the manufacture of LeuTech and Mallinckrodt agreed to pay us a transfer price on each product unit transferred to Mallinckrodt and a royalty on the net sales of LeuTech.

Under the terms of the amended agreement, Mallinckrodt committed to fund up to an
additional $3.2 million, subject to certain conditions and attaining certain milestones, to offset a portion of the estimated expenses associated with completing the FDA review process. Additionally, timing of the original $10 million in milestone payments has been revised to coincide with LeuTech’s anticipated FDA approval and achievement of future sales goals. The $3.2 million has been paid in full as of March 31, 2004.

**MIDAS™ (Metal Ion-induced Distinctive Array of Structures)**. MIDAS is a proprietary platform technology that allows us to routinely design and synthesize novel pharmaceuticals that mimic the activity of peptides, but which we believe offer significant advantages to conventional protein or peptide-based drugs. MIDAS uses metal ions to fix the three-dimensional shape of peptides, forming conformationally rigid molecules that remain folded specifically in their active forms. These MIDAS molecules are simple to synthesize, are chemically and proteolytically stable, and have the potential to be orally bioavailable. Moreover, unlike most other drug discovery approaches, we believe that MIDAS is unique in that it can be used to generate either receptor antagonists (drugs that block a particular metabolic response) or agonists (drugs that promote a particular metabolic response). In addition, MIDAS molecules are information-rich and provide data on structure-activity relationships that can be used to design traditional small molecule drugs.

We have initiated a MIDAS program to discover and develop compounds that interact with the MC family of receptors. MC receptors regulate a diverse array of functions such as pigmentation, adrenocortical function, immune modulation, sexual arousal and energy maintenance. Based on this effort, we have identified several MIDAS molecules that are now in preclinical development as potential treatments for sexual dysfunction, obesity, cachexia and inflammation. We expect to file an investigational new drug application (IND) with the FDA for at least one of these preclinical compounds and initiate clinical testing within the next 12 months.

Generation of commercially viable protein and peptide drug molecules with desirable properties continues to be arduous, expensive and labor-intensive. We believe that our MIDAS technology simplifies the development process by eliminating many of the inherent limitations associated with peptides and proteins. We intend to seek to enter into strategic alliances or collaborative arrangements to provide additional financial and technical resources for MIDAS development.

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**Results of Operations**


*Grants and Contracts* – For the three and nine months ended March 31, 2004, we
recognized nothing and $2,000,000, respectively, in contract revenue related to LeuTech pursuant to our collaboration agreement with Mallinckrodt, Inc., a division of Tyco International, Ltd. compared to $44,000 and $504,000, respectively, for three and nine months ended March 31, 2003. The increase in contract revenue for the nine months ended March 31, 2004 was attributable to the achievement of milestone events stipulated in the collaboration agreement. For the three and nine months ended March 31, 2004, we recorded $149,738 in grant revenue pursuant to the Small Business Technology Transfer programs of the Department of Health and Human Services compared to $137,417 for both the three and nine months ended March 31, 2003.

License Fees and Royalties – During the fiscal year ended June 30, 2001, we adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101 “Revenue Recognition in Financial Statements” (“SAB 101”), which required up-front, non-refundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 resulted in a one-time, non-cash charge of $361,111 in fiscal 2001, which reflected the deferral portion of an up-front license fee received from Mallinckrodt, Inc. related to licensing of LeuTech recognized in the fiscal year ended June 30, 2000. Previously we had recognized up-front license fees when they were received and we had no obligations to return the fees under any circumstances. Under SAB 101 these payments should be recorded as deferred revenue and recognized over the remaining term of the related agreements. For the three and nine months ended March 31, 2004, we recorded $31,016 and $155,081, respectively, of license revenue compared to $148,878 and $545,887, respectively, for the three and nine months ended March 31, 2003. For the three and nine months ended March 31, 2004, $2,170 and $10,851, respectively of license revenue recorded was included in the cumulative effect adjustment as of July 1, 2000 and $28,846 and $144,230, respectively, was recorded as a result of the initial $800,000 payment received from Mallinckrodt pursuant to our amended collaboration agreement in May 2002. For the three and nine months ended March 31, 2003, $10,418 and $38,199, respectively, of license revenue recorded was included in the cumulative effect adjustment as of July 1, 2000 and $138,460 and $507,688, respectively, was recorded as a result of the initial $800,000 payment received from Mallinckrodt.

Research and development – Research and development expenses (“R&D”) increased to $7,127,006 and $17,959,723, respectively, for the three and nine months ended March 31, 2004 compared to $4,744,379 and $12,015,910, respectively, for the three and nine months ended March 31, 2003. The increase in R&D is primarily related to our increased development efforts and expanding clinical trials of PT-141 and LeuTech. Our R&D efforts, and their respective allocated costs, are currently concentrated on the following:

- PT-141, As of March 31, 2004, we have incurred approximately $30,700,000 in allocated R&D expenses. For the three and nine months ended March 31, 2004, approximately $4,100,000 and $8,600,000, respectively, of R&D expense was allocated to PT-141 compared to $1,700,000 and $5,200,000 million, respectively, for the three and nine months ended March 31, 2003. We anticipate incurring approximately $10,000,000 of R&D expenses over the next 12 months as we
progress with our clinical trials and product development programs. We will seek to enter into a strategic collaboration agreement, which we anticipate will offset a portion of the estimated costs.

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• LeuTech, As of March 31, 2004, we have incurred approximately $47,600,000 in allocated R&D expenses. For the three and nine months ended March 31, 2004, approximately $2,100,000 and $6,900,000, respectively, of R&D expense was allocated to LeuTech compared to approximately $2,300,000 and $4,700,00, respectively, for the three and nine months ended March 31, 2003. We anticipate incurring approximately $3,000,000 of R&D expenses over the next 12 months.

• MIDAS, As of March 31, 2004, we have incurred approximately $12,100,000 in allocated R&D expenses. For the three and nine months ended March 31, 2004, approximately $900,000 and $2,500,000, respectively, of R&D expense was allocated to MIDAS compared to approximately $800,000 and $2,100,00, respectively, for the three and nine months ended March 31, 2003. Based on this effort, we have identified several molecules that are now in preclinical development as potential treatments for obesity, sexual dysfunction and inflammation. We expect to file an IND with the FDA for at least one of these preclinical compounds and initiate clinical testing within the next 12 months. We anticipate incurring approximately $3,000,000 of R&D expenses over the next 12 months.

General and administrative — General and administrative expenses increased overall to $1,164,992 and $4,168,322, respectively, for the three and nine month periods ended March 31, 2004 compared to $1,280,305 and $3,651,738, respectively, for the three and nine month periods ended March 31, 2003. The overall increase in general and administrative expenses is primarily attributable to an increase in salaries and other stock based compensation and related personnel expenses.

Interest income — Interest income increased to $88,297 and $261,389, respectively, for the three and nine month periods ended March 31, 2004 compared to $50,120 and $147,079, respectively, for the three and nine month periods ended March 31, 2003. The increase in interest income is attributable to higher amounts of cash, cash equivalents and investments available to be invested.

Net loss — Net loss increased to $8,027,481 and $19,337,303, respectively, for the three and nine month periods ended March 31, 2004 compared to $5,651,579 and $14,102,634, respectively, for the three and nine month periods ended March 31, 2003. The
increase was attributable to the increase in expenses explained above.

**Liquidity and Capital Resources**

Since inception, we have incurred net operating losses. As of March 31, 2004, we had a deficit accumulated during development stage of $110,146,129. We have financed our net operating losses through March 31, 2004 by a series of debt and equity financings. As of March 31, 2004, we had cash and cash equivalents of $23,238,251 and available for sale investments of $3,913,014. On January 28, 2004, we completed a private placement of our common stock and warrants, which yielded gross proceeds of approximately $22,700,000. Pursuant to the private placement, investors purchased 6,992,500 shares of common stock at $3.25 per share and received five year warrants to purchase 1,048,875 shares of common stock at an exercise price of $4.06. The net proceeds of approximately $21,000,000 will be used for the continued development of PT-141, LeuTech, drug discovery efforts and general corporate purposes.

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Our product candidates are at various stages of research and development and may never be successfully developed or commercialized. We will need regulatory approval to market and sell LeuTech for diagnosis of appendicitis, as well as PT-141, MIDAS and LeuTech for other indications. PT-141, MIDAS and LeuTech for other indications will require significant further research, development and testing. We may experience uncertainties, delays, difficulties and expenses commonly experienced by development-stage biopharmaceutical companies, which may include unanticipated problems and additional costs relating to:

- the development and testing of products in animals and humans;
- product approval or clearance;
- regulatory compliance;
- good manufacturing practices;
- intellectual property rights;
- product introduction; and
- marketing and competition.

Failure to obtain regulatory approval of LeuTech, or delays in obtaining regulatory
approval of LeuTech for the diagnosis of appendicitis, would eliminate or delay our potential revenues from sales of LeuTech. This could make it more difficult to attract investment capital for the continued funding of LeuTech or our other research and development projects. Any of these possibilities could materially and adversely affect our operations.

During the nine months ended March 31, 2004, our operating activities used net cash of approximately $16,900,000 and during the nine months ended March 31, 2003 our operating activities used net cash of approximately $13,800,000. The increase resulted primarily from increased R&D spending on both PT-141 and LeuTech.

During the nine months ended March 31, 2004, we used cash in investing activities of $58,807 consisting of $108,856 in capital expenditures partially offset by $50,049 received pursuant to the maturity of a bond. During the nine months ended March 31, 2003, we used cash in investing activities of approximately $3,000,000, consisting of approximately $2,000,000 for purchases of investment securities and approximately $1,000,000 for capital expenditures.

During the nine months ended March 31, 2004, net cash provided by financing activities was approximately $26,000,000, consisting of approximately $26,100,000 million from the sale of common stock and the exercise of common stock options and warrants, partially offset by approximately $150,000 for payments on capital lease obligations. During the nine months ended March 31, 2003, net cash provided by financing activities was approximately $31,200,000, consisting of approximately $31,400,000 from the proceeds of the sale of common stock and warrants, partially offset by approximately $158,000 for payments on capital lease obligations.

We have three license agreements that require minimum yearly payments. Future minimum payments under the license agreements for the following fiscal years ending June 30 are: 2004 — $250,000, 2005 — $200,000, 2006 — $200,000, 2007 — $200,000 and 2008 — $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 or whether we will have sufficient funds to pursue any such acquisition should an opportunity arise.
will be adequate to fund our projected operations through the fiscal year ending June 30, 2005, based on current and projected expenditure levels. No assurance can be given that we will not consume a significant amount of our available resources before that time. We plan to continue to refine our operations, control expenses, evaluate alternative methods to conduct our business and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements or other resources. Should appropriate sources of financing not be available, we would delay certain trials and research activities until such time as appropriate financing was available.

We anticipate incurring additional losses over at least the next few years. 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.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk.**

**Interest Rate Risk.** Our exposure to market risk related to changes in interest rates relates primarily to our investment portfolio. We invest in instruments that meet high credit quality standards, and we limit the amount of credit exposure as to any one issue, issuer and type of investments.

As of March 31, 2004, our cash and cash equivalents were $23,238,251 and available for sale investments, which consisted of corporate debt securities and mutual funds, were $3,913,014. Due to the average maturity and conservative nature of our investment portfolio, we do not believe that short-term fluctuations in interest rates would materially affect the value of our securities.

**Item 4. Controls and Procedures.**

**Evaluation of Disclosure Controls and Procedures.** Our chief executive officer and chief financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on their evaluation, our disclosure controls and procedures were adequate and effective to ensure that material information relating to Palatin, including our consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

**Changes in Internal Controls.** There were no significant changes in our internal controls over financial reporting or in other factors that could significantly affect these controls subsequent to the date of their evaluation, nor were there any significant deficiencies or material weaknesses in our internal controls over our financial reporting. Accordingly, we did not require or undertake any corrective actions.
PART II — OTHER INFORMATION

Item 1. Legal Proceedings.

None.

Item 2. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities.

In January 2004, we concluded a private placement of common stock and warrants in which we sold 6,992,500 shares of our $.01 par value common stock at an offering price of $3.25 per share. The investors also received 15% warrant coverage on the number of shares they purchased. Each five-year warrant entitles the holder to purchase one share of common stock at an exercise price of $4.06 per share. The gross proceeds were approximately $22,700,000 and the net proceeds were approximately $21,000,000. We made the private placement solely to financial institutions and accredited investors pursuant to Regulation D under the Securities Act of 1933. The investors represented to us that they were purchasing the securities for their own accounts for investment and not with a view toward resale or distribution to others. The certificates representing the shares of common stock and warrants bear restrictive legends. A registration statement covering the resale of the shares by the investors was filed and subsequently declared effective by the Security and Exchange Commission in April 2004. In connection with the private placement, we paid placement fees totaling approximately $1,600,000.

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 filed with this report:

31.1 Certification of Chief Executive Officer
31.2 Certification of Chief Financial Officer

32.1 Certification of principal executive officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

32.2 Certification of principal financial officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K

None.

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Signatures

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

Palatin Technologies, Inc.
(Registrant)

Date: May 13, 2004

/s/ Carl Spana
Carl Spana, Ph.D.
President and
Chief Executive Officer

Date: May 13, 2004

/s/ Stephen T. Wills
Stephen T. Wills
Executive Vice President and
Chief Financial Officer
(Principal
Financial and Accounting
Officer)