ANNUAL REPORT ON FORM 10-KSB FOR 1999

U.S. Securities and Exchange Commission
Washington, D.C. 20549

FORM 10-KSB

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

For the fiscal year ended June 30, 1999

[] TRANSITION REPORT UNDER 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.
(Name of small business issuer in its charter)

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

214 Carnegie Center, Suite 100
Princeton, New Jersey 08540
(Address of principal executive offices) (Zip Code)

Issuer’s telephone number: (609) 520-1911
Securities registered under Section 12(b) of the Exchange Act: None

Securities registered under Section 12(g) of the Exchange Act:

    Common Stock, par value $.01 per share
    (Title of class)

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 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 if there is no disclosure of delinquent filers in response to Item 405 of
Regulation S-B contained in this form, and no disclosure will be contained, to
the best of the registrant’s knowledge, in definitive proxy or information
statements incorporated by reference in Part III of this Form 10-KSB or by any
amendment to this Form 10-KSB. [ ]

The issuer’s revenues for its fiscal year ended June 30, 1999 were $609,977.

The aggregate market value of the voting and non-voting common equity held by
non-affiliates computed by reference to the price at which the common equity was
sold, or the average bid and asked price of such common equity, as of September
27, 1999, was $22,334,357.

As of September 27, 1999, 7,240,329 shares of the registrant’s common stock, par
value $.01 per share, were outstanding.

Documents incorporated by reference: not applicable

Transitional Small Business Disclosure Format (check one): Yes No X

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PART II
We make forward-looking statements in this report and the documents we incorporate by reference. 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 prospectus and in the documents we incorporate by reference. 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.

Item 1. Description of Business.

Overview

We are in the early stages of developing pharmaceutical products and technologies. We are concentrating our efforts on the following:

- LeuTech(TM), a diagnostic imaging product used to image and locate the
site of infection or inflammation within the body. We have completed clinical trials with LeuTech for the diagnosis of appendicitis and expect to file an application with the United States Food and Drug Administration for approval to market LeuTech for diagnosis of appendicitis in the last quarter of 1999. We are conducting additional clinical trials with LeuTech to diagnose bone infections and infections of prostheses, or artificial body parts. We believe that LeuTech can also be used to diagnose a wide range of other infections, including infections of the intra-abdominal area, such as intestinal, spleen, liver or urinary tract infections.

- PT-14, a drug to treat sexual dysfunction, primarily male erectile dysfunction. PT-14 is a stabilized peptide that works like a natural hormone. A peptide is a short chain of amino acids. PT-14 is in the early stages of clinical trials.

- MIDAS(TM), a peptide technology which may be useful to develop drugs to treat diseases or for diagnostic imaging. We are engaged in research and development of this technology to diagnose infections and to treat obesity, and believe that this technology may have applications in a variety of other areas as well, including immune disorders, cancers and cardiology.

Products and technologies in research and development

LeuTech. The LeuTech kit system, which uses our direct radiolabeling technology, is a mouse monoclonal antibody-based product. LeuTech has been formulated as a lyophilized, or freeze-dried, kit containing the modified antibody and reagents required for the radiolabeling process. Prior to use, LeuTech will be labeled with technetium-99m by a radiopharmacy or by a hospital's nuclear medicine department. After labeling, LeuTech is administered to the patient by intravenous injection, and rapidly binds to white blood cells present at the site of the infection or circulating in the bloodstream. Using LeuTech, physicians can take a definitive image within 90 minutes of administration, permitting rapid imaging and detection of the site of infection.

Examples of typical occult abscesses include infections of the intra-abdominal area, such as intestinal, spleen, liver or urinary tract abscesses, as well as bone, prosthetic and other abscesses. As part of the body’s immune response to an infection, large numbers of white blood cells migrate to and collect at the site of the infection. The concentration of white blood cells at the site of the infection can be used as the basis of detection. By using an agent such as LeuTech, which “tags” or labels the white blood cells with radioactivity, the site of the infection can be readily detected using a gamma camera.

The most specific procedure currently available for the nuclear medicine imaging of sites of infection involves white blood cells labeled with radioactivity outside of the patient’s body. This white blood cell labeling procedure begins with the removal of blood from the patient, isolating white blood cells from the patient’s blood, radiolabeling the white blood cells and injecting the radiolabeled white blood cells back into the patient. The radiolabeled white blood cells then localize at the site of the infection, and can be detected using a gamma camera. This procedure is expensive, involves risks to patients and technicians associated with blood handling, and generally
takes between eight and twelve hours to generate a diagnostically useful image.

In order to understand the process of drug testing and approval, it is helpful to be familiar with the following terminology of clinical trial phases and FDA applications:

Preclinical testing: animal trials to evaluate toxicity.

Phase 1: clinical tests on patients to evaluate drug safety.

Phase 2: clinical tests on patients to evaluate drug effectiveness.

Phase 3: clinical tests on patients to evaluate drug safety, dosage and effectiveness.

Investigational new drug application: report on preclinical and clinical testing, with manufacturing and labeling information.

Biologics license application: application for FDA approval for sale of a product classified as a biologic.

New drug application: application for FDA approval for sale of a product classified as a drug.

We submitted an investigational new drug application to the FDA on LeuTech for diagnosis of appendicitis, and we have completed Phase 1, 2 and 3 clinical trials.

Our Phase 1 clinical trial tested the safety and biodistribution of LeuTech. In that study, LeuTech was administered to 10 healthy volunteers who were monitored for adverse events. The results showed that there were no significant safety concerns associated with LeuTech administration.

In our Phase 2 clinical trial, we evaluated LeuTech for its ability to diagnose equivocal appendicitis. The Phase 2 clinical trial enrolled 56 patients with a preliminary diagnosis of equivocal appendicitis at two medical centers. In the study, the commercial preparation of LeuTech demonstrated 88% accuracy and 100% sensitivity in the diagnosis of equivocal appendicitis.

In July 1998, we met with representatives of the FDA to discuss the LeuTech Phase 2 clinical results and to discuss the LeuTech Phase 3 clinical trials protocol. As a result of this meeting, we submitted a Phase 3 protocol and began Phase 3 clinical trials for the diagnosis of equivocal appendicitis in September 1998. We completed Phase 3 clinical trials in the spring of 1999.

In May 1999, we met with representatives of the FDA to discuss the LeuTech Phase 3 clinical results and to discuss filing a biologics license application for approval to market LeuTech for diagnosis of equivocal appendicitis. We are preparing the biologics license application, which we expect to file in the 1999.

We have conducted small-scale LeuTech trials in other infectious indications. We have obtained LeuTech images in indications such as osteomyelitis, abdominal abscesses, and pulmonary infections. In many cases, researchers were able to obtain LeuTech diagnostic images in under one hour. We
commenced Phase 2 clinical trials in February 1999 for detection of osteomyelitis and intend to commence Phase 2 clinical trials in the coming year for osteomyelitis in infected prostheses, osteomyelitis in diabetic mid- and hind-foot ulcers, occult abscesses, pediatric doses in equivocal appendicitis as well as safety studies on the risks of repeat doses in the presence of human anti-mouse antigens.

Strategic collaboration agreement with Mallinckrodt, Inc. As of August 17, 1999, we entered into a strategic collaboration agreement with Mallinckrodt, Inc., 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;

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- 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;
- agreed to the oversight of LeuTech development and marketing activities by a joint steering committee, comprised of equal numbers of representatives to be appointed by each of Palatin and Mallinckrodt;
- agreed to the potential termination of the agreement by either party in the event of material breach or nonpayment by the other party and the expiration of the agreement after the commercial sale of LeuTech ceases;

- agreed that if the agreement was validly terminated by Palatin before its expiration due to a material breach or nonpayment by Mallinckrodt, then, among other things, all licenses granted to Mallinckrodt will be terminated, Mallinckrodt will assign to Palatin any interest they may have in any trademarks used to market LeuTech as well as any regulatory filings they may have made in connection with LeuTech and Mallinckrodt will continue to pay Palatin royalty on the sale of any inventory they may have the right to dispose of; and

- agreed that if the agreement was validly terminated by Mallinckrodt
before its expiration due to a material breach or nonpayment by Palatin, then, among other things, all licenses granted to Mallinckrodt under the terms of the agreement will be considered exclusive and irrevocable, Palatin shall transfer to Mallinckrodt all contractual and intellectual property rights necessary for the production of LeuTech in quantities sufficient to meet Mallinckrodt’s needs, and Mallinckrodt shall continue to pay Palatin royalty on all sales of LeuTech.

PT-14. PT-14 is a stabilized peptide analog of the natural hormone alpha-MSH. We are developing it for the treatment of male erectile dysfunction. We believe that PT-14 will be different from currently available treatments for male erectile dysfunction because its mechanism of action is through receptors found in the brain, as compared to a direct effect on blood flow to the penis. PT-14 may be useful in treating patients who do not respond well to current therapies. In a double-blind clinical study using PT-14 conducted under an investigational new drug application submitted to the FDA and held in the name of an investigator at the University of Arizona, eight out of ten men achieved clinically significant erectile response. We intend to further evaluate PT-14 for male erectile dysfunction in a larger patient population. The Phase 2 clinical trial, which we expect to begin in the fall of 1999, will enroll 45 new subjects. In addition, we will also support a study of ten men whose prostates have been surgically removed. We expect to conduct that study in the fall of 1999.

We have entered into an exclusive royalty-bearing license agreement with Competitive Technologies, Inc. to develop and market PT-14. PT-14 is currently administered as a non-penile subcutaneous injection. We have initiated development efforts on an oral delivery formulation of PT-14. In March 1998, we entered into a license and development agreement with TheraTech, Inc., which included a license to some patents owned by TheraTech, to collaboratively develop an oral transmucosal delivery system for PT-14. We are in discussions with TheraTech relating to the termination of the license and development agreement. During these discussions, no additional work is being done with TheraTech.

MIDAS Technology. MIDAS is a novel peptide chemistry that may have broad applications in the pharmaceutical and radiopharmaceutical industries. The MIDAS technology combines a metal ion with a specially designed peptide, resulting in a biologically active molecule. Peptides, which are short chains of amino acids, play important roles in regulating a variety of biological functions. Natural peptides function by conforming or bending to fit specific molecules on cell surfaces, called receptors, thereby signaling the cell to initiate a biological activity. Some important biological functions that are affected in this manner include overall growth and behavior, inflammatory responses, immune responses and wound healing.

In order to effectively regulate cell signaling, a peptide must bind to its target receptor with high affinity. The affinity of a peptide for its target receptor is highly dependent on its three-dimensional shape or conformation. Many naturally occurring peptides are flexible and can take on multiple conformations, allowing them to interact with more than one type of cell receptor, and to control multiple functions within the body. However, when such peptides are used as drugs, this multiple reactivity is a disadvantage as it may potentially lead to side effects. The ability to construct high-affinity,
receptor-specific peptides offers a significant opportunity to develop potent receptor-specific drugs.

We believe that our patent-pending MIDAS technology can be used to rationally design and produce receptor-specific drugs. Using MIDAS, highly stable metallopeptide complexes are formed, in which the metal ion locks or constrains the peptide into a specific conformation. By designing MIDAS peptides to mimic the conformation required for a specific receptor, a stable, receptor-specific drug, with high affinity and enhanced biological activity, can be made. Radiopharmaceutical products, which may be diagnostic or therapeutic, may be developed using radioactive metal ions in MIDAS peptides. Non-radioactive metal ions may be used in the development of biopharmaceutical MIDAS peptides.

We are engaged in research and development on a number of product opportunities for our MIDAS technology, including use of peptide molecules for diagnosis of infection and for treatment of obesity. We believe that MIDAS technology may have medical applications in a variety of areas, including immune disorders, cancers and cardiology. We intend to seek to enter into strategic alliances or collaborative arrangements to provide additional financial and technical resources for MIDAS development.

Agreement with Nihon Medi-Physics. In 1996, we entered into a license option agreement with Nihon Medi-Physics Co. Ltd., a large Japanese pharmaceutical company. We received an initial payment of $1,000,000, before Japanese withholding taxes of $100,000. On December 29, 1998, we terminated our license option agreement with Nihon by mutual agreement.

Patents and Proprietary Information

Patent protection. Our success will depend in substantial part on our ability to obtain, defend and enforce patents, maintain trade secrets and operate without infringing upon the proprietary rights of others, both in the United States and abroad. We aggressively seek patent protection for our technology in the United States and, selectively, in those foreign countries where protection is important to the development of our business.

Our patents and pending applications are directed to radiolabeling of antibodies, antibody fragments, and peptides; MIDAS peptides; peptide pharmaceuticals; and to methods for making and using the foregoing in diagnostic and therapeutic applications. We own or have rights to 24 United States patents, seven pending United States patent applications and foreign patents and applications in selected foreign countries corresponding to certain United States patents and applications.

In the event a third party has also filed a patent application relating to an invention we claimed in a patent application, we may be required to participate in an interference proceeding adjudicated by the United States Patent and Trademark Office ("PTO") to determine priority of invention. The possibility of an interference proceeding could result in substantial uncertainties and cost, even if the eventual outcome is favorable to us. An adverse outcome could result in our losing patent protection for the subject of the interference, subject us to significant liabilities to third parties and require us to obtain licenses from third parties at undetermined cost or to cease using the technology.

Future patent infringement. Patents which would be infringed by our
commercial activities might not have yet been issued. We may be unable to avoid infringement of any such patents and may have to seek a license, defend an infringement action, or challenge the validity of such patents in court. Patent litigation is costly and time consuming. If we do not obtain a license under any such patents, are found liable for infringement, or if such patents are not found to be invalid, we may be liable for significant money damages, may encounter significant delays in bringing products to market, or may be precluded from participating in the manufacture, use or sale of products or methods of treatment covered by such patents.

Government rights. Some of our patents are directed to inventions developed internally or within academic institutions from which we earlier acquired rights to such patents with funds from United States government agencies. As a result of these arrangements, the United States government may have rights in certain inventions developed during the course of the performance of federally funded projects, as required by law or agreements with the funding agency.

Proprietary information. We rely on proprietary information, such as trade secrets and know-how, which is not patented. We have taken steps to protect our unpatented trade secrets and know-how, in part through the use of confidentiality agreements with our employees, consultants and certain of our contractors. If our employees, scientific consultants or collaborators or licensees develop inventions or processes independently that may be applicable to our product candidates, disputes may arise about ownership of proprietary rights to those inventions and processes. Such inventions and processes will not necessarily become our property, but may remain the property of those persons or their employers. Protracted and costly litigation could be necessary to enforce and determine the scope of our proprietary rights.

Governmental Regulation

The FDA, comparable agencies in foreign countries and state regulatory authorities have established regulations and guidelines which apply, among other things, to the clinical testing, manufacturing, safety, efficacy, labeling, storage, record keeping, advertising, promotion and marketing of our proposed products. Noncompliance with applicable requirements can result in fines, recalls or seizures of products, total or partial suspension of production, refusal of the regulatory authorities to approve marketing applications, and criminal prosecution.

After approving a product for marketing, the FDA may require post-marketing testing, including extensive Phase 4 studies, and surveillance to monitor the effects of the product in general use. The FDA may withdraw product approvals if compliance with regulatory standards is not maintained or if problems occur following initial marketing. In addition, the FDA may impose restrictions on the use of a drug that may limit its marketing potential.

Good manufacturing practices. In addition to obtaining either a biologics license application or new drug application approval from the FDA for any of our proposed products, if the proposed product is manufactured in the United States, the drug manufacturing establishment must be registered with, and inspected by, the FDA. Such drug manufacturing establishments are subject to biennial inspections by the FDA, and must comply with good manufacturing practices regulations enforced by the FDA. To supply products for use in the United States, foreign manufacturing establishments must comply with good manufacturing practices and are subject to periodic inspection by the FDA or by corresponding
regulatory agencies in such other countries under reciprocal agreements with the FDA. In complying with standards established by the FDA, manufacturing establishments must continue to expend time, money and effort in the areas of production and quality control to ensure full technical compliance. Components of LeuTech are manufactured by contract manufacturing establishments both in the United States and in foreign countries, and we anticipate that PT-14 and proposed products resulting from MIDAS technology will be manufactured by contract manufacturing establishments.

Third-party Reimbursements

Successful sales of our proposed products in the United States and other countries will depend on the availability of adequate reimbursement from third-party payors such as governmental entities, managed care organizations and private insurance plans. Reimbursement by a third-party payor may depend on a number of factors, including the payor's determination that use of a product is safe and efficacious, neither experimental nor investigational, medically necessary, appropriate for the specific patient and cost effective. Since reimbursement approval is required from each payor individually, seeking such approvals is a time-consuming and costly process. Third-party payors routinely limit reimbursement coverage and in many instances are exerting significant pressure on medical suppliers to lower their prices. There is significant uncertainty concerning third-party reimbursement for the use of any pharmaceutical product incorporating new technology, and we are not sure whether third-party reimbursement will be available for our proposed products, or that such reimbursement, if obtained, will be adequate. Less than full reimbursement by governmental and other third-party payors for our products would adversely affect the market acceptance of these products. Further, health care reimbursement systems vary from country to country, and we are not sure whether third-party reimbursement will be made available for our proposed products under any other reimbursement system.

Manufacturing and Marketing

To be successful, our products must be manufactured in commercial quantities under good manufacturing practices requirements prescribed by the FDA and at acceptable costs. We do not have the facilities to manufacture any products in commercial quantities under good manufacturing practices. We intend to rely on collaborators, licensees or contract manufacturers for the commercial manufacture of our products.

We have no ability or capacity to manufacture LeuTech. We are dependent on Dutch State Mines of the Netherlands for the manufacture of the antibody used in LeuTech, and on Ben Venue Laboratories of Cleveland, Ohio for the manufacture of LeuTech kits. The failure of either of these manufacturers to supply these key components of LeuTech on a timely basis or at all, could force us to seek alternative sources of supply and could interfere with our ability to deliver product on a timely basis. Establishing relationships with new suppliers, any of whom must be FDA-approved, can be a time-consuming and costly process.

If LeuTech is approved for marketing by the FDA, we expect to rely on arrangements with other companies, such as Mallinckrodt, to market, sell and
distribute LeuTech. We may have difficulty establishing the necessary marketing capability, and in any event, we will have limited control over these activities. If we do not establish sufficient marketing capability with other companies, our potential revenues from the sale of LeuTech will be adversely affected.

Proposed products resulting from MIDAS technology and PT-14 are synthetic peptides. The peptides are synthesized from readily available amino acids, and the production process involves well-established technology. We currently contract with third-party manufacturers for the production of peptides and anticipate doing so in the future.

We intend to package and ship our radiopharmaceutical products in the form of non-radioactive kits. Prior to patient administration, the product would be radiolabeled with the specified radioisotope, generally by a specialized radiopharmacy. We do not intend to sell or distribute any radioactive substance.

Product Liability and Insurance

Our business may be affected by potential product liability risks which are inherent in the testing, manufacturing and marketing of our proposed products. We have liability insurance providing up to $5,000,000 coverage per occurrence and in the aggregate as to certain clinical trial risks, and we will seek to obtain additional product liability insurance before the commercialization of our products.

Important Factors Affecting Our Business

The following important factors, among others, could cause our actual results, performance or achievements, or industry results, to differ materially from those which we express in forward-looking statements in this report or in other materials from time to time.

Development and commercialization of our proposed products and technologies involves a lengthy, complex and costly process and we may never develop or commercialize any products.

Our proposed products are at various stages of research and development and may never be successfully developed or commercialized. LeuTech will require final regulatory approval to market it for diagnosis of appendicitis, and it will require additional clinical trials for other indications. PT-14 and MIDAS technology will require significant further research, development and testing. You should evaluate us in light of the uncertainties, delays, difficulties and expenses commonly experienced by early stage pharmaceutical companies, which generally 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
We expect our losses to increase over the next several years and we may never become profitable.

We have never been profitable and we may never become profitable. As of June 30, 1999, we had an accumulated deficit of $35,322,364. We anticipate substantial and increasing losses over the next several years as we begin to manufacture and market LeuTech for diagnosis of appendicitis, expand clinical trials for LeuTech’s other indications and for PT-14, and continue research and development of PT-14 and MIDAS technology.

If we do not obtain additional funds our business will suffer.

We are currently spending approximately $850,000 each month on research, development and administrative costs. Based on that expenditure level, we currently have enough money to continue operations through December 31, 2000, including funds received pursuant to the strategic collaboration agreement with Mallinckrodt. If adequate funds are not available when needed, we may be forced to cease operating, or limit the scope of our research and development.

We expect to sell additional equity securities which would cause dilution.

We expect to sell more equity securities in the future to obtain operating funds. We may sell these securities at a discount to the market price. Any future sales of equity securities will dilute the holdings of existing stockholders.

We could lose our rights to LeuTech and PT-14, which would adversely affect our potential revenues and could result in a loss of your investment.

Our rights to a key antibody used in LeuTech are dependent upon an exclusive license agreement with The Wistar Institute of Biology and Anatomy. Our rights to PT-14 are dependent upon an exclusive license agreement with Competitive Technologies, Inc. These agreements contain specific performance criteria and require us to pay royalties and make milestone payments. Failure to meet these requirements, or any other event of default under the license agreements, could lead to termination of the license agreements. If a license agreement is terminated we may be unable to make or market the covered product, in which case we may lose the value of our substantial investment in developing the product, as well as any future revenues from selling the product. If we were to lose rights to LeuTech, our lead product, the negative impact would be especially severe.

The FDA may not approve the marketing of LeuTech for diagnosis of appendicitis, which would adversely affect our potential revenues and could result in a loss of your investment.
We recently completed clinical trials with LeuTech for the diagnosis of appendicitis and expect to file an application with the FDA for approval to market LeuTech for diagnosis of appendicitis. Preparation of the LeuTech license application and subsequent FDA review can be a long, expensive and uncertain process. The application must demonstrate that LeuTech has met rigorous standards of safety, efficacy and manufacturing before it can be approved by the FDA for commercial use. Failure to obtain regulatory approval of LeuTech, or delays in obtaining regulatory approval of LeuTech, would eliminate or delay our potential revenues from sales of LeuTech. This could make it more difficult to attract investment capital for funding our other research and development projects.

Competing products and technologies may make LeuTech and our other potential products noncompetitive.

We are aware of one company developing an antibody-based product which may compete with LeuTech as to certain indications. The competing product is marketed in some European countries and regulatory approval is pending in the United States. We are also aware of at least one other company developing a peptide-based product which may also compete with LeuTech as to certain indications. In addition, other technologies may also be used to diagnose appendicitis, including computerized tomography or CT scan, and ultrasound technologies.

We are aware of at least three products developed by other companies for the treatment of male erectile dysfunction that have obtained FDA marketing approval, and we are aware of other products that are at a later stage of development than PT-14. We are also aware of a number of companies developing technologies relating to the use of peptides as drugs, including a variety of different approaches to making conformationally constrained peptides.

The pharmaceutical industry is highly competitive. We are likely to encounter significant competition with respect to LeuTech and our other potential products. Many of our competitors have substantially greater financial and technological resources than we do. Many of them also have significantly greater experience in research and development, marketing, distribution and sales than we do. Accordingly, our competitors may succeed in developing, marketing, distributing and selling products and underlying technologies more rapidly than we can. These competitive products or technologies may be more effective and useful and less costly than LeuTech or our other potential products. Academic institutions, hospitals, governmental agencies and other public and private research organizations are also conducting research and may develop competing products or technologies on their own or through strategic alliances or collaborative arrangements.

Contamination or injury from hazardous materials used in the development of LeuTech, PT-14 and MIDAS could result in liability exceeding our financial resources.

Our research and development of LeuTech, PT-14 and MIDAS involves the use of hazardous materials and chemicals, including radioactive compounds. We cannot completely eliminate the risk of contamination or injury from these materials. In the event of contamination or injury, we may be responsible for any resulting damages. Damages could be significant and could exceed our financial resources, including the limits of our insurance.
Conflicts of interest may arise because some of our officers, directors and consultants work for other companies.

Some of our officers, directors and consultants currently serve and will continue to serve as officers, directors or consultants of other pharmaceutical or biotechnology companies. In particular, Edward J. Quilty, our chief executive officer and a director, and Stephen T. Wills, our chief financial officer, hold similar positions with Derma Sciences, Inc., a publicly traded company in the business of selling wound care devices. Carl Spana, Ph.D., our chief technology officer and a director, is a director of Avax Technologies, Inc., a publicly traded medical technology company. It is possible that such other companies will have interests which conflict with our interests, in which case we may lose business opportunities and/or the services of one or more officers, directors or consultants.

Our stock price has ranged from $7.125 to $1.375 over the last 12 months, and we expect it to remain volatile, which could limit stockholders' ability to sell stock at a premium.

The volatile price of our stock makes it difficult for stockholders to predict the value of their stock, to sell shares at a profit at any given time, or to plan purchases and sales in advance. A variety of factors may affect the market price of our common stock. These include, but are not limited to:

- continued operating losses
- announcements of technological innovations or new therapeutic products
- announcement or termination of collaborative relationships by us or our competitors
- FDA approval or disapproval for marketing LeuTech
- governmental regulation
- clinical trial results
- developments in patent or other proprietary rights
- public concern as to the safety of products we develop
- general market conditions.

Trading in our stock over the last 12 months has been limited, so stockholders may not be able to sell as much stock as they want at prevailing prices.

The average daily trading volume in our common stock was approximately 61,000 shares and the average daily number of transactions was approximately 65 over the last 12 months. If limited trading in our stock continues, it may be difficult for stockholders to sell their shares in the public market at any given time at prevailing prices.

Our management and principal stockholders together control over a third of our voting securities, a concentration of ownership which could delay or prevent a
Our executive officers, directors and 5% or greater stockholders together control approximately 44% of our voting securities. These stockholders, acting together, will be able to influence and possibly control most matters submitted for approval by our stockholders, including the election of directors, delaying or preventing a change of control, and the consideration of transactions in which stockholders might otherwise receive a premium for their shares over then current market prices.

There are in excess of 6,000,000 shares of common stock underlying outstanding derivative securities which, if exercised or converted, could decrease the value of your shares.

As of September 27, 1999, holders of our outstanding derivative securities have the right to acquire the following amounts of underlying common stock:

- 1,199,514 shares issuable on conversion of convertible preferred stock, for no further consideration
- 2,572,679 shares issuable on exercise of warrants, at exercise prices ranging from $.22 to $8.68 per share
- 2,198,408 shares issuable on exercise of stock options, at exercise prices ranging from $.20 to $21.70 per share

The sale or availability for sale of the underlying shares in the marketplace could depress our stock price. We have registered for resale almost all of the shares underlying preferred stock and warrants, and we have registered or expect to register almost all of the shares underlying options. As a result, many of the underlying shares could be resold immediately upon issuance, resulting in downward pressure on our stock price.

Industry-wide factors could adversely affect our business.

In addition to the factors associated specifically with our business as described in this report, stockholders should also be aware of other general factors associated with drug development and the pharmaceutical industry. These include but are not limited to:

- success of clinical trials
- ability to secure patent protection
- patent disputes
- ability to attract and retain qualified management, scientific and technical personnel and/or consultants
- recall of products
- acceptance of products by the medical community
- insuring against product liability claims.
Employees

As of June 30, 1999, we employed 26 persons full time, of whom 20 were engaged in research and development activities and six were engaged in administration and management. Eight of our employees hold Ph.D. degrees. From time to time, we hire scientific consultants to work on specific research and development programs. We have been successful in attracting skilled and experienced scientific personnel, however, competition for personnel in our industry is intense.

None of our employees is covered by a collective bargaining agreement. Our employees have executed confidentiality agreements. We consider relations with our employees to be good.

We rely on independent organizations, advisors and consultants to provide services, including most aspects of manufacturing and some aspects of regulatory approval and clinical management. Our independent advisors and consultants generally sign agreements that provide for confidentiality of our proprietary information.

History and Merger

Interfilm, Inc. Palatin was incorporated as a Delaware corporation on November 21, 1986 under the name of Cinedco, Inc., which it later changed to Interfilm, Inc. From 1993 to 1995, Interfilm was primarily engaged in the interactive motion picture business. Interfilm suspended its business activities in May 1995.


New name and capital restructuring. On July 19, 1996, we amended our certificate of incorporation to:

1. change our name from Interfilm, Inc. to Palatin Technologies, Inc.,
2. increase our authorized common stock from 10,000,000 to 25,000,000 shares, and
3. effect a 1-for-10 reverse split of the common stock.

On September 5, 1997, we again amended our certificate of incorporation, to:

1. increase our authorized common stock from 25,000,000 to 75,000,000 shares,
2. increase our authorized preferred stock from 2,000,000 to 10,000,000 shares, and
3. effect a 1-for-4 reverse split of the common stock.
Item 2. Description of Property.

Our executive offices are located at 214 Carnegie Center, Suite 100, Princeton, New Jersey, where we lease approximately 4,000 square feet under a lease which expires July 31, 2002. Our research and development facility is located in Edison, New Jersey, where we lease approximately 10,500 square feet, with an option on additional space, under a lease which expires July 31, 2007. The properties we lease are in good condition.

Item 3. Legal Proceedings.

We are involved in various claims and litigation arising in the normal course of business, consisting of actions commenced against Palatin prior to the RhoMed merger. We believe that the outcome of such claims and litigation will not have a material adverse effect on our business.

Item 4. Submission of Matters to a Vote of Security Holders.

At our annual stockholders meeting which convened on June 17, 1999, the stockholders elected the following seven nominees as directors, with the votes indicated:

<table>
<thead>
<tr>
<th>Nominee</th>
<th>Votes for:</th>
<th>Votes Withheld:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edward J. Quilty</td>
<td>6,210,986</td>
<td>44,174</td>
</tr>
<tr>
<td>Charles Putnam</td>
<td>6,210,986</td>
<td>44,174</td>
</tr>
<tr>
<td>Carl Spana</td>
<td>6,210,986</td>
<td>44,174</td>
</tr>
<tr>
<td>James T. O'Brien</td>
<td>6,210,986</td>
<td>44,174</td>
</tr>
<tr>
<td>John K. A. Prendergast</td>
<td>6,210,986</td>
<td>44,174</td>
</tr>
<tr>
<td>Robert G. Moussa</td>
<td>6,210,986</td>
<td>44,174</td>
</tr>
<tr>
<td>Robert K. deVeer, Jr.</td>
<td>6,210,986</td>
<td>44,174</td>
</tr>
</tbody>
</table>

The stockholders also approved amendments to our 1996 stock option plan. These amendments, which the board of directors had previously approved,

- increased the number of shares of common stock available under the plan from 625,000 to 2,500,000 and
- permit options to remain valid more than 90 days after the option holder ceases to be an employee, director or consultant.

The stockholders also ratified the appointment of Arthur Andersen LLP as our auditors for the fiscal year ended June 30, 1999. The votes on the option plan amendments and auditors were as follows:

Our common stock has been quoted on The Nasdaq SmallCap Market under the symbol "PLTN," since October 14, 1997. From October 1, 1995 until listing on the Nasdaq SmallCap Market, our common stock was quoted on the OTC Bulletin Board(R).

The following table gives the range of high and low bid information for our common stock for each quarter of the last two fiscal years, as obtained from The Nasdaq Stock Market, Inc. The quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission, and may not represent actual transactions.

<table>
<thead>
<tr>
<th>Period</th>
<th>High bid price</th>
<th>Low bid price</th>
</tr>
</thead>
<tbody>
<tr>
<td>July 1 - September 30, 1997*</td>
<td>9 1/2</td>
<td>6 1/4</td>
</tr>
<tr>
<td>October 1 - December 31, 1997</td>
<td>10 3/4</td>
<td>5 1/4</td>
</tr>
<tr>
<td>January 1 - March 31, 1998</td>
<td>7 3/8</td>
<td>5 1/2</td>
</tr>
<tr>
<td>April 1 - June 30, 1998</td>
<td>9 1/16</td>
<td>4 3/4</td>
</tr>
<tr>
<td>July 1 - September 30, 1998</td>
<td>5 1/2</td>
<td>1 29/32</td>
</tr>
<tr>
<td>October 1 - December 31, 1998</td>
<td>5 13/16</td>
<td>1 3/8</td>
</tr>
<tr>
<td>January 1 - March 31, 1999</td>
<td>6 3/8</td>
<td>3 3/4</td>
</tr>
<tr>
<td>April 1 - June 30, 1999</td>
<td>7</td>
<td>3 3/4</td>
</tr>
<tr>
<td>July 1 - September 27, 1999</td>
<td>5 1/8</td>
<td>3 3/8</td>
</tr>
</tbody>
</table>

*Prices before September 5, 1997 have been adjusted to reflect the 1-for-4 reverse split of common stock which took place on September 5, 1997.

Holders of common stock. On September 27, 1999, we had 301 holders of record of common stock.

Dividends and dividend policy. We have never declared or paid any dividends. We currently intend to retain earnings, if any, for use in our business. We do not anticipate paying dividends in the foreseeable future.

Dividend restrictions. Our three outstanding series of preferred stock, Series A, B and C, contain the following restrictions on our ability to pay dividends or make distributions to stockholders.

- Series A: We may not pay a dividend or make any distribution to holders of any class of stock unless we first pay a special dividend or distribution of $100 per share to the holders of Series A preferred
Item 6. Management’s Discussion and Analysis or Plan 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.

Results of Operations

Year Ended June 30, 1999 Compared to the Year Ended June 30, 1998

Grants and contracts - During the year ended June 30, 1999 we recognized $59,977 as revenue under the Small Business Technology Transfer program of the Department of Health and Human Services. Grant revenue under the Small Business Innovative Research program of the Department of Health and Human Services was $33,967 for the year ended June 30, 1998. During the year ended June 30, 1999, we received two new grants under the National Institutes of Health Small Business Innovative Research program totaling $850,000.

License fees and royalties - We recognized $550,000 in license fees as revenue during the year ended June 30, 1999 related to our termination of a license option agreement with Nihon. This $550,000 was previously reported as deferred license revenue. We had no revenues from license fees or royalties during the year ended June 30, 1998.

Research and development expenses - Research and development expenses increased to $8,719,562 for the year ended June 30, 1999 from $7,111,716 for the year ended June 30, 1998. We substantially increased research and development spending, primarily relating to development of our LeuTech product for diagnostic imaging of infections, including increased expenses for manufacturing scale-up, consulting and clinical trials, and also relating to research expenses on our PT-14 peptide therapeutic product and MIDAS technology. The increase is also attributable to the amortization of deferred compensation totaling $313,202. We expect research and development expenses to continue to increase in future quarters as we expand research and manufacturing efforts on the LeuTech product and expand efforts to develop PT-14 and MIDAS technology.

General and administrative expenses - General and administrative expenses increased to $3,957,401 for the year ended June 30, 1999 from $2,990,756 for the year ended June 30, 1998. The increase in general and administrative expenses was mainly attributable to the amortization of deferred compensation and the value of options granted at exercise prices below the then current market price of our common stock totaling $995,473.

Interest income - Interest income decreased to $172,241 for the year ended June 30, 1999 from $408,770 for the year ended June 30, 1998. The decrease in interest income is primarily the result of the depletion of funds available for investment purposes and used to fund our operations. We expect interest income to increase for fiscal year 2000 pursuant to the receipt of funds from the execution of the strategic collaboration agreement with Mallinckrodt, Inc. (See Note 15).
Interest expense - Interest expense decreased to $107,639 for the year ended June 30, 1999 from $227,143 for the year ended June 30, 1998. The decrease in interest expense is due to our repayment of a portion of outstanding principal on long-term debt. We expect interest expense to decrease for fiscal year 2000, because we expect to be able to fund our expected levels operations with the resources currently on hand.

Net loss - Net loss increased to $12,002,384 for the year ended June 30, 1999 from $9,886,878 for the year ended June 30, 1998.

Year Ended June 30, 1998 Compared to the Year Ended June 30, 1997

Grants and contracts - During the year ended June 30, 1998, we completed four Phase I grants with the National Institutes of Health under the Small Business Innovative Research program. Grant revenue from these research grants was $33,967, compared to $350,173 during the year ended June 30, 1997.

License fees and royalties - We had no revenues from license fees or royalties during the year ended June 30, 1998. In the year ended June 30, 1997, we entered into an option agreement with Nihon, pursuant to which we received an initial payment of $1,000,000 before Japanese withholding taxes of $100,000. We accounted for the initial payment by recognizing license fee revenue of $350,000 and deferred license fee revenue of $550,000.

Sales - We had no revenues from sales during the year ended June 30, 1998. During the year ended June 30, 1997, we discontinued sales of our RhoChek product due to insufficient sales. Total revenues from sales during the year ended June 30, 1997, were $22,184.

Research and development expenses - Research and development expenses increased to $7,111,716 for the year ended June 30, 1998 from $3,409,983 for the year ended June 30, 1997. We substantially increased research and development spending, primarily relating to development of our LeuTech product, including increased expenses for manufacturing scale-up, consulting and initiation of Palatin-sponsored clinical trials, and also relating to research expenses on our MIDAS metallopeptide technology. The increase is also attributable to the amortization of deferred compensation, and to the value of options granted at exercise prices below the then current market price of our common stock, totaling $797,570 for the year ended June 30, 1998.

General and administrative expenses - General and administrative expenses increased to $2,990,756 for the year ended June 30, 1998 from $2,533,883 for the year ended June 30, 1997. The increase in general and administrative expenses was mainly attributable to the amortization of deferred compensation, totaling $925,740 for the year ended June 30, 1998, and the value of options granted at exercise prices below the then current market price of our common stock.

Interest income - Interest income increased to $408,770 for the year ended June 30, 1998 from $296,009 for the year ended June 30, 1997. The interest income was primarily the result of interest on the net proceeds from our offering of Series A Preferred Stock.

Interest expense - Interest expense decreased to $227,143 for the year ended June 30, 1998 from $374,664 for the year ended June 30, 1997. The decrease...
is due to the repayment by us of outstanding principal on long-term debt provided by Aberlyn Capital Management Limited Partnership.

Net loss - Net loss increased to $9,886,878 for the year ended June 30, 1998 from $5,300,164 for the year ended June 30, 1997.

Liquidity and Capital Resources

Since our inception, we have incurred net operating losses and, as of June 30, 1999, had an accumulated deficit of $35,322,364. We have financed our net operating losses through June 30, 1999 by a series of debt and equity financings. At June 30, 1999, we had cash and cash equivalents of $2,333,801.

For the year ended June 30, 1999, the net decrease in cash amounted to $1,992,386. Net cash used for operating activities was $10,046,896, net cash used for investing activities was $523,972, and net cash provided by financing activities was $8,578,482.

On July 8, 1998, we sold 363,636 shares of our common stock for gross proceeds of $2,000,000 and net proceeds of approximately $1,964,000, after deducting expenses.

On December 31, 1998, we sold 287,500 shares of our common stock and detachable, five-year, non-redeemable warrants to purchase an additional 287,500 shares of common stock at $4.375, for gross proceeds of $1,150,000 and net proceeds of approximately $1,000,000.

On February 8, 1999, we sold 651,750 shares of our common stock and detachable, five-year, non-redeemable warrants to purchase an additional 651,750 shares of common stock at $4.70. We realized gross proceeds of $2,607,000 and net proceeds of approximately $2,350,000.

From March 9, 1999 to March 12, 1999, we sold 514,215 shares of our common stock and detachable, five-year, non-redeemable warrants to purchase an additional 565,629 shares of common stock. Each warrant is exercisable for one share of common stock at prices ranging from $4.48 to $5.06. We realized gross proceeds of $2,427,000 and net proceeds of approximately $2,175,000.

On May 13, 1999, we received $2,000,000 from Mallinckrodt, Inc. pursuant to a subordinate note (See Note 7). Principal and interest, accrued at 9% per year, was due by December 31, 2000. The note was secured by our assets. We paid the note in full on August 17, 1999 along with interest expense of $46,849.

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.

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

We have entered into four license agreements, which require us to make minimum yearly payments. Future minimum payments under the license agreements are as follows: 2000 - $200,000, 2001 - $150,000, 2002 - $200,000 and 2003 - $200,000 and 2004 - $200,000.
We expect to continue actively searching for certain products and technologies to license or acquire 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, subsequent to the execution of the strategic collaboration agreement with Mallinckrodt, will be adequate to fund our projected operations through December 31, 2000, 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.

We believe that we do not have significant year 2000 issues related to our computerized information systems. It is possible that certain computer systems or software products of our suppliers and contractors may not be year 2000 compatible. Since we are not heavily dependent on any particular software package or vendor in our operations, our assessment of these year 2000 issues related to our suppliers and contractors is minimal.

We currently believe that costs of addressing these issues will not have a material adverse impact on our financial position. We plan to devote all resources required to resolve any significant year 2000 issues in a timely manner. Through the fiscal year ended June 30, 1999, we have expended under $10,000 on the year 2000 issue. To date, we have not made any contingency plans to address third-party year 2000 risks. We will formulate contingency plans to the extent necessary in the remainder of 1999.

Item 7. Financial Statements.
Our consolidated financial statements appear following the signature page at the end of this report.

Item 8. Changes In and Disagreements With Accountants on Accounting and Financial Disclosure.

Not applicable.

PART III

Item 9. Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act

Executive officers and directors. The following table sets forth the names, ages and positions of our executive officers and directors:

<table>
<thead>
<tr>
<th>Name</th>
<th>Age</th>
<th>Position with Palatin</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edward J. Quilty (1)</td>
<td>48</td>
<td>Chairman of the board, president, chief executive officer and director</td>
</tr>
<tr>
<td>Charles Putnam</td>
<td>46</td>
<td>Executive vice president, chief operating officer and director</td>
</tr>
<tr>
<td>Carl Spana, Ph.D.</td>
<td>37</td>
<td>Executive vice president, chief technology officer and director</td>
</tr>
<tr>
<td>Stephen T. Wills</td>
<td>42</td>
<td>Executive vice president and chief financial officer, secretary and treasurer</td>
</tr>
<tr>
<td>James T. O'Brien (1)(2)</td>
<td>60</td>
<td>Director</td>
</tr>
<tr>
<td>John K.A. Prendergast, Ph.D. (1)</td>
<td>45</td>
<td>Director</td>
</tr>
<tr>
<td>Robert G. Moussa (1)</td>
<td>53</td>
<td>Director</td>
</tr>
<tr>
<td>Robert K. deVeer, Jr. (2)</td>
<td>53</td>
<td>Director</td>
</tr>
</tbody>
</table>

(1) Member of the compensation committee.
(2) Member of the audit committee.

EDWARD J. QUILTY has been our chairman of the board, president, chief executive officer and a director since the RhoMed merger. Since November 1995, Mr. Quilty has been CEO and a director of RhoMed. From July 1994 through November 1995, Mr. Quilty was president, CEO and a director of MedChem Products, Inc., a publicly traded medical device company, which in September 1995 was merged into C.R. Bard, Inc. From March 1992 through July 1994, Mr. Quilty served as president and CEO of Life Medical Sciences, Inc., a publicly traded biotechnology company. From January 1987 through October 1991, Mr. Quilty served as executive vice president of McGaw Inc., a publicly traded pharmaceutical company. Mr. Quilty is also chairman of the board and a director of Derma Sciences, Inc., a publicly traded medical device company. Mr. Quilty received his M.B.A. from Ohio University and a B.S. from Southwest Missouri State University.

CHARLES PUTNAM has been an executive vice president since June 1996, chief
operating officer since June 1998 and a director since December 1998. He is responsible for operations, product development and regulatory and clinical affairs. From July 1994 to May 1996, Mr. Putnam was executive vice president, research and development, of MedChem. At MedChem, Mr. Putnam was responsible for product development, regulatory affairs, clinical research and quality control. From March 1993 to July 1994, Mr. Putnam was vice president of operations and research and development of Life Medical Sciences, where he was responsible for all aspects of manufacturing, product development and regulatory affairs for Life Medical Sciences' commercial product line. From March 1983 to March 1993, Mr. Putnam was employed by American Cyanamid Corporation in a variety of positions, including director of device development.

CARL SPANA, Ph.D., has been a director since the RhoMed merger, and has been a director of RhoMed since July 1995. Since June 1996, Dr. Spana has served as an executive vice president and the chief technology officer of Palatin and RhoMed. From June 1993 to June 1996, Dr. Spana was vice president of Paramount Capital Investments, LLC, a biotechnology and biopharmaceutical merchant banking firm, and of The Castle Group Ltd., a medical venture capital firm. At Paramount Capital Investments and at Castle Group, Dr. Spana was responsible for discovering, evaluating, and commercializing biotechnologies. Through his work at Paramount Capital Investments and at Castle Group, Dr. Spana co-founded and acquired several private biotechnology firms. From July 1991 to June 1993, Dr. Spana was a Research Associate at Bristol-Myers Squibb, a publicly traded pharmaceutical company, where he was involved in scientific research in the field of immunology. Dr. Spana is a director of and was interim president of AVAX Technologies, Inc., a publicly traded medical technology company. Dr. Spana received his Ph.D. in molecular biology from The Johns Hopkins University and his B.S. in biochemistry from Rutgers University.

STEPHEN T. WILLS has been a vice president and our chief financial officer since November 1997. Since July 1997, Mr. Wills has been a vice president and the chief financial officer of Derma Sciences, and since 1991 has been the president and chief operating officer of Golomb, Wills & Company, P.C., a public accounting firm. Mr. Wills, a certified public accountant, received his B.S. in accounting from West Chester University, and an M.S. in taxation from Temple University.

JAMES T. O’BRIEN has been a director since August 1996. Since November 1991, Mr. O’Brien has been chairman of the board of Access Corporation, a provider of employment software and information. Since July 1996, Mr. O’Brien has been president and chief executive officer of O’Brien Marketing and Communications, an advertising and communications company. From 1989 to 1991 Mr. O’Brien was president and chief operating officer of Elan Corporation, PLC, a publicly traded pharmaceutical company. From 1986 to 1989, Mr. O’Brien was president and chief executive officer of O’Brien Pharmaceuticals, Inc. Prior to this, Mr. O’Brien held various management positions with Revlon Health Care Group, including president of USV Laboratories and the Armour Pharmaceutical Company; Lederle Laboratories; and Sandoz Pharmaceuticals, Inc. Mr. O’Brien is a director of Cydex Inc., a privately held drug delivery company, and of Benedictine College in Atchison, Kansas.

JOHN K.A. PRENDERGAST, Ph.D. has been a director since August 1996. Dr. Prendergast has served as president and principal of Summercloud Bay, Inc., a biotechnology-consulting firm, since 1993. He is a co-founder and/or a member of the board of Ingenex, Inc., Optex Ophthalmologics, Inc., Gemini Gene Therapies, Inc., Channel Therapeutics, Inc., Xenometrix, Inc., Avigen, Inc., and AVAX Technologies, Inc. From October 1991 through December 1997, Dr. Prendergast was
a managing director of Paramount Capital Investments, LLC and a managing
director of The Castle Group Ltd. Dr. Prendergast received his M.Sc. and Ph.D.
from the University of New South Wales, Sydney, Australia and a C.S.S. in
administration and management from Harvard University.

ROBERT G. MOUSSA has been a director since April 1998. From 1978 until his
retirement in 1997, Mr. Moussa was with Mallinckrodt, Inc., and was president of
Mallinckrodt International from 1995 to 1997. He had responsibilities for
corporate-wide globalization efforts, and was president and chief executive
officer of Mallinckrodt Medical, Inc. from 1992 to 1996. Mr. Moussa is a
graduate of the College du Sacre-Coeur and the Ealing University.

ROBERT K. deVEER, JR. has been a director since December 1998. Since
January 1997, Mr. deVeer has been the president of deVeer Capital LLC, a private
investment company. From 1995 until his retirement in 1996, Mr. deVeer served as
Managing Director, Head of Industrial Group at New York-based Lehman Brothers.
From 1973 to 1995, he held increasingly responsible positions at New York-based
CS First Boston, including Head of Project Finance, Head of Industrials and Head
of Natural Resources. He was a managing director, member of the investment
banking committee, and a trustee of the First Boston Foundation. He received a
B.A. in economics from Yale University and an M.B.A. in finance from Stanford
University.

All directors were elected at the annual stockholders' meeting on June 17,
1999 and hold office until the next annual meeting of stockholders, or until
their successors have been elected and qualified. Executive officers are
appointed by the board and serve at the discretion of the board. Each officer
holds his position until his successor is appointed and qualified. All of the
current executive officers hold office under employment agreements. Mr. Quilty's
employment agreement expires July 31, 2002 with automatic annual renewal if not
terminated, and the

employment agreements with Mr. Putnam, Dr. Spana and Mr. Wills all expire

Section 16(a) Beneficial Ownership Reporting Compliance. The rules of the
Securities and Exchange Commission require us to disclose late filings of
reports of stock ownership and changes in stock ownership by our directors and
executive officers. To the best of our knowledge, all of the filings for our
directors and executive officers were made on a timely basis in fiscal 1999,
except that Michael S. Weiss, a former director, failed to timely report changes
in beneficial ownership on Form 5 for the year ended June 30, 1999. Mr. Weiss
subsequently reported the required information on Form 5. We know of no other
failure to file a required form.

Item 10. Executive Compensation.

Summary compensation table. The following table shows compensation paid to
our chief executive officer and the other named executive officers for the last
three fiscal years. Our fiscal year end is June 30. With respect to the persons
and periods covered in the following table, we made no restricted stock awards,
have no outstanding stock appreciation rights ("SARs") and have no long-term
incentive plan ("LTIP").
<table>
<thead>
<tr>
<th>Name and Principal Position</th>
<th>Year</th>
<th>Salary</th>
<th>Bonus</th>
<th>Option Shares(1)</th>
<th>Compensation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edward J. Quilty, chief executive officer</td>
<td>1999</td>
<td>$358,567</td>
<td>--</td>
<td>100,000</td>
<td>$6,989(2)</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>$334,395</td>
<td>$64,200</td>
<td>24,067(3)</td>
<td>$3,812(2)</td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>$301,064</td>
<td>--</td>
<td>240,074</td>
<td>--</td>
</tr>
<tr>
<td>Charles Putnam, executive vice president</td>
<td>1999</td>
<td>$207,626</td>
<td>--</td>
<td>100,000</td>
<td>$7,025(2)</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>$160,298</td>
<td>$30,000</td>
<td>74,196(5)</td>
<td>$3,812(2)</td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>$150,000</td>
<td>--</td>
<td>41,766</td>
<td>--</td>
</tr>
<tr>
<td>Carl Spana, Ph.D., executive vice president</td>
<td>1999</td>
<td>$183,266</td>
<td>--</td>
<td>100,000</td>
<td>--</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>$160,298</td>
<td>$25,000</td>
<td>74,196(6)</td>
<td>$87(7)</td>
</tr>
<tr>
<td></td>
<td>1997</td>
<td>$150,000</td>
<td>--</td>
<td>41,766</td>
<td>--</td>
</tr>
<tr>
<td>Stephen T. Wills, executive vice president</td>
<td>1999</td>
<td>$40,417</td>
<td>--</td>
<td>100,000</td>
<td>$48,198(8)</td>
</tr>
<tr>
<td></td>
<td>1998</td>
<td>$56,250</td>
<td></td>
<td>42,144(8)</td>
<td>--</td>
</tr>
</tbody>
</table>

(1) The security underlying all options listed is common stock.

(2) Premiums paid for health insurance policies.

(3) Includes an anti-dilution option to purchase 7,803 shares of common stock at $.20 per share granted on March 24, 1998, pursuant to the terms of Mr. Quilty’s employment agreement. The March 28, 1998 option replaced a canceled option to purchase the same number of shares at $4.96 per share, originally granted under the 1997 Executive Officers Stock Option Plan and included in the 1997 total. Excluding that replacement option, Mr. Quilty received options to purchase a total of 16,264 shares during fiscal 1998.

(4) Includes an anti-dilution option to purchase 70,257 shares of common stock at $.20 per share granted on September 27, 1996, pursuant to the terms of Mr. Quilty’s employment agreement. The September 27, 1996 option replaced a canceled option to purchase the same number of shares at $5.42 per share, originally granted by RhoMed on June 21, 1996 and included in the 1996 total. The $5.42 per share price of the June 21, 1996 option was not in accordance with the terms of Mr. Quilty’s employment agreement, so the board replaced the June 21, 1996 option with the correctly priced September 27, 1996 option. Excluding that replacement option, Mr. Quilty received options to purchase a total of 169,817 shares during fiscal 1997.

(5) Includes an option to purchase 74,196 shares of common stock at $1.00 per share granted on March 24, 1998, under a stock option agreement with Mr. Putnam. The March 24, 1998 option replaced a canceled option to purchase
the same number of shares at $4.96 per share, originally granted under RhoMed stock option plans and included in the 1996
total. Excluding that replacement option, Mr. Putnam received no additional options during fiscal 1998.

(6) Includes an option to purchase 74,196 shares of common stock at $1.00 per share granted on March 24, 1998, under a stock option agreement with Dr. Spana. The March 24, 1998 option replaced a canceled option to purchase the same number of shares at $4.96 per share, originally granted under RhoMed stock option plans and included in the 1996 total. Excluding that replacement option, Dr. Spana received no additional options during fiscal 1998.

(7) Premiums paid for disability insurance policy.

(8) Amounts paid to the accounting firm of Golomb, Wills & Co. for consulting services.

Option grants in last fiscal year. The following table shows options granted to the named executive officers during the fiscal year ended June 30, 1999. All of the options listed were granted under our 1996 stock option plan, and the underlying security is common stock. The exercise price for each option is equal to the market price of common stock on the date of grant. We have not granted any stock appreciation rights ("SARs").

<table>
<thead>
<tr>
<th>Name</th>
<th>Granted (#)</th>
<th>% of Total</th>
<th>Exercise Price ($/Sh)</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edward J. Quilty</td>
<td>100,000(1)</td>
<td>17.5%</td>
<td>$4.000</td>
<td>12/11/08</td>
</tr>
<tr>
<td>Charles Putnam</td>
<td>50,000(2)</td>
<td>8.8%</td>
<td>$2.500</td>
<td>9/11/08</td>
</tr>
<tr>
<td>Charles Putnam</td>
<td>50,000(3)</td>
<td>8.8%</td>
<td>$4.125</td>
<td>12/31/08</td>
</tr>
<tr>
<td>Carl Spana, Ph.D.</td>
<td>50,000(2)</td>
<td>8.8%</td>
<td>$2.500</td>
<td>9/11/08</td>
</tr>
<tr>
<td>Carl Spana, Ph.D.</td>
<td>50,000(3)</td>
<td>8.8%</td>
<td>$4.125</td>
<td>12/31/08</td>
</tr>
<tr>
<td>Stephen T. Wills</td>
<td>50,000(2)</td>
<td>8.8%</td>
<td>$2.500</td>
<td>9/11/08</td>
</tr>
<tr>
<td>Stephen T. Wills</td>
<td>50,000(3)</td>
<td>8.8%</td>
<td>$4.125</td>
<td>12/31/08</td>
</tr>
</tbody>
</table>

(1) The option becomes exercisable as to 1/12 on the 16th day of each month, starting December 16, 1998.

(2) The option becomes exercisable as to 33% on September 11, 1998 and 1999, and as to 34% on September 11, 2000.

(3) Fully exercisable.
Fiscal year-end option values. We have no outstanding SARs. Fiscal year-end values in the following table are based on a last reported sale price for the common stock, as reported on The Nasdaq SmallCap Market on June 30, 1999, of $4.5625 per share.

<table>
<thead>
<tr>
<th>Name</th>
<th>Shares Underlying</th>
<th>Shares Exercised</th>
<th>Shares Unexercised</th>
<th>Shares Exercisable</th>
<th>Shares Unexercisable</th>
</tr>
</thead>
<tbody>
<tr>
<td>Edward J. Quilty</td>
<td>70,257</td>
<td>304,312</td>
<td>41,667</td>
<td>23,438</td>
<td></td>
</tr>
<tr>
<td>Charles Putnam</td>
<td>0</td>
<td>N/A</td>
<td>33,334</td>
<td>68,751</td>
<td></td>
</tr>
<tr>
<td>Carl Spana, Ph.D.</td>
<td>0</td>
<td>N/A</td>
<td>33,334</td>
<td>68,751</td>
<td></td>
</tr>
<tr>
<td>Stephen T. Wills</td>
<td>0</td>
<td>N/A</td>
<td>33,334</td>
<td>68,751</td>
<td></td>
</tr>
</tbody>
</table>

Compensation of directors.

Non-employee directors' initial option grants. All non-employee directors serving on the date the board adopted the 1996 stock option plan, including Michael S. Weiss (a former non-employee director), James T. O'Brien and John K.A. Prendergast, received initial non-employee directors' options to purchase 5,000 shares of common stock at $5.44 per share, the market price on the date of grant. Under the current compensation policy, when a non-employee director is first elected to the board, he receives an option to purchase an amount of common stock determined by the board, up to 10,000 shares, at the market price on the date of grant. Mr. Moussa received an option to purchase 10,000 shares at $6.25 per share and Mr. deVeer received an option to purchase 10,000 shares at $4.00 per share upon joining the board. These options vest as to 25% of the option per year, starting one year after the date of grant, and expire ten years from the date of grant.

Non-employee directors' annual option grants. Each non-employee director receives annually an option to purchase 10,000 shares of common stock at the market price on the date of grant. Mr. Weiss, Mr. O'Brien and Dr. Prendergast each received an option to purchase 6,667 shares of common stock at $6.00 per share, in lieu of a regular non-employee director's option for service for the period from August 1997 through March 1998. These options vest as to 25% of the option per year, starting one year after the date of grant, and expire ten years from the date of grant.

Non-employee directors' annual fees. Non-employee directors receive $12,000 per year, plus reimbursement of expenses, for services as a director. In lieu of
the $12,000 per year, a non-employee director may elect, on or before December 12 of each year, to receive an option for the number of shares of common stock which would be purchasable, at the market price on December 12, for $24,000. These options vest in 12 monthly increments and expire 10 years from the date of grant. Pursuant to this policy, Mr. Weiss and Mr. O’Brien received options to purchase:

- 4,267 shares at $5.625 per share for calendar year 1998;
- 355 shares at $5.625 per share as compensation for services rendered in December 1997;
- 2,839 shares at $7.75 per share as compensation for services rendered in calendar year 1997 through November 1997; and
- 1,066 shares at $7.50 per share in lieu of accrued compensation of $4,000 which was due as of December 1996.

Messrs. Weiss, O’Brien, Moussa and deVeer each elected to receive options to purchase 5,907 shares of common stock at $4.0625 per share (the market price on the first trading day after December 12, 1998), in lieu of $12,000 compensation for calendar year 1999.

Michael S. Weiss resigned from the board effective April 15, 1999. The board accelerated vesting of all of Mr. Weiss’s options, for a total of 61,101 shares, to April 15, 1999, and extended Mr. Weiss’s options, which would have terminated 90 days after his resignation, to have a termination date of April 15, 2000.

Employee directors. Employee directors are not separately compensated for services as directors, but are reimbursed for expenses incurred in performing their duties as directors, including attending all meetings of the board and any committees on which they serve. Service as a director is a condition of Edward J. Quilty’s employment agreement, but is not separately compensated.

Employment Agreements

Edward J. Quilty. Mr. Quilty serves as the chairman and chief executive officer of Palatin under an employment agreement which commenced on August 1, 1999. The term of the agreement is three years.

Mr. Quilty’s minimum base salary and current salary is $360,643 per year. He is entitled to receive annual bonus compensation of up to one year’s base salary, in an amount to be decided by the compensation committee based on his achievement of yearly objectives, among other things. We have agreed to reimburse Mr. Quilty for premiums and other payments to maintain a $1,000,000 term life insurance policy. Mr. Quilty is also entitled to participate in all bonus and benefit programs that we establish, to the extent his position, tenure, salary, age, health and other qualifications make him eligible to participate, and in any directors’ and officers’ liability insurance which we maintain.

We may grant Mr. Quilty stock options under the employment agreement, with an exercise price equal to the closing market price on the date of grant. If we do grant options under the agreement, anti-dilution protections in the agreement will require us to issue additional options if, during the term of the employment agreement, we sell securities which increase our outstanding common stock.
stock by 40% or more. In that event, we must issue additional options so that Mr. Quilty will have options granted under the employment agreement to purchase the number of shares of common stock which, together with shares purchased on the exercise of such options, is at least equal to the percentage of our outstanding common stock that he had the option to purchase under the employment agreement before the increase. To date, we have not granted any options under the employment agreement.

If we terminate the employment agreement for "cause," or if Mr. Quilty terminates the agreement without "good reason," as these terms are defined in the employment agreement, then

- we will pay all amounts earned through the termination date, and
- all options previously granted to Mr. Quilty, under the employment or any other stock option plan or employee benefit plan, terminate immediately.

If the agreement terminates upon Mr. Quilty's death or disability, then

- we will pay him or his estate all amounts earned through the termination date,
- we will pay him or his estate six months' additional salary, and
- all options not previously exercisable will become exercisable in full for 90 days.

If we terminate the employment agreement without cause, or if Mr. Quilty terminates the employment agreement with good reason or within 12 months after a change in control of Palatin, then

- we will pay him all amounts earned through the termination date, including a prorated cash bonus based on the previous year's bonus,
- Mr. Quilty may elect lump sum distribution from any deferred compensation plan,
- we will pay him severance pay consisting of the greater of one year of his highest base salary or the aggregate salary which he would have received for the remaining term of the agreement,
- we will maintain his insurance benefits for one year,
- we will pay reasonable expenses of locating new employment, and
- all options not previously exercisable will become exercisable in full for 90 days.

The employment agreement also includes non-competition, confidentiality and indemnification covenants.

Charles Putnam, Carl Spana, Ph.D. and Stephen T. Wills. Mr. Putnam, Dr. Spana and Mr. Wills have each entered into employment agreements for a three-year period commencing September 11, 1998. Mr. Putnam is serving as an executive vice president and the chief operating officer, at a minimum base salary of $200,000 per year and a current salary of $220,000 per year. Dr. Spana
is serving as an executive vice president and the chief technology officer, at a minimum base salary of $176,000 per year and a current salary of $190,000 per year. Mr. Wills is serving as an executive vice president and the chief financial officer, at a minimum base salary of $65,000 per year and a current salary of $100,000 per year. Each is entitled to receive annual bonus compensation of up to one year's base salary, in an amount to be decided by the compensation committee based on their achievement of yearly objectives, among other things. Each is also entitled to participate in all bonus and benefit programs that we establish, to the extent his position, tenure, salary, age, health and other qualifications make him eligible to participate, and in any directors' and officers' liability insurance which we maintain.

Pursuant to their employment agreements, each of Messrs. Putnam, Spana and Wills have received an option to purchase 50,000 shares of common stock, at a price of $2.50 per share, granted under our 1996 stock option plan. The options vest as to 33% of the shares on September 11, 1998 and 1999, and as to the remaining 34% on September 11, 2000.

Anti-dilution protections in each agreement require us to issue additional options if, during the term of the employment agreement, we sell securities which increase the outstanding common stock by 40% or more. In that event, we must issue options at an exercise price of $2.50 per share, so that each officer will have options granted under the employment agreement to purchase the number of shares of common stock which, together with shares purchased on the exercise of such options, is at least equal to the percentage of our outstanding common stock that each officer had the option to purchase under the employment agreement as of September 11, 1998. That percentage was approximately 1.1%.

Each agreement allows us or the employee to terminate the agreement on 30 days' notice, and contains other provisions for termination by Palatin for "cause," or by the employee for "good reason" or due to a "change in control," as these terms are defined in the employment agreements. Early termination may, in some circumstances, result in accelerated vesting of stock options and/or severance pay for a one-year period at the rate of base salary, cash bonus and benefits then in effect. Each agreement contains non-competition, non-solicitation and confidentiality covenants.

**Item 11. Security Ownership of Certain Beneficial Owners and Management.**

The table below shows the beneficial stock ownership and current voting power, as of September 27, 1999, of each director, each of the named executive officers, and all directors and executive officers as a group. It also includes all persons who, to our knowledge, beneficially own more than five percent of our common stock or Series A preferred stock, which are the only classes of voting securities we have outstanding. "Beneficial ownership" here means direct or indirect voting or investment power over outstanding stock and stock which a person has the right to acquire now, or within 60 days after September 27, 1999.

Some beneficial owners are listed twice in the table -- once to show their common stock holdings, and once to show their Series A preferred stock holdings. The common stock amounts shown in the table include the common stock issuable on conversion of Series A preferred stock, so the ownership percentages shown for any person who holds both types of stock should not be added together. Also, share amounts may reflect indirect ownership of shares which another person in
the table owns directly. Therefore, the ownership percentages of affiliated persons should not be added together. See the footnotes for more detailed explanations of the holdings. Except as otherwise noted, to our knowledge, the persons named in the table beneficially own and have sole voting and investment power over all shares listed.

The common stock has one vote per share and the Series A preferred stock has approximately 21.41 votes per share. Voting power is calculated on the basis of the aggregate of common stock and Series A preferred stock outstanding as of September 27, 1999. On September 27, 1999, 7,240,329 shares of common stock and 38,936 of Series A preferred stock were outstanding.

The address for all beneficial owners, unless otherwise noted, is c/o Palatin Technologies, Inc., 214 Carnegie Center, Suite 100, Princeton, NJ 08540.
<table>
<thead>
<tr>
<th>Class</th>
<th>Name of Beneficial Owner</th>
<th>Shares</th>
<th>Percent of Voting</th>
<th>Power</th>
</tr>
</thead>
<tbody>
<tr>
<td>Common</td>
<td>Edward J. Quilty</td>
<td>541,816(1)</td>
<td>7.0%</td>
<td>*</td>
</tr>
<tr>
<td>Common</td>
<td>Charles Putnam</td>
<td>231,962(2)</td>
<td>3.1%</td>
<td>*</td>
</tr>
<tr>
<td>Common</td>
<td>Carl Spana, Ph.D.</td>
<td>235,385(3)</td>
<td>3.1%</td>
<td>*</td>
</tr>
<tr>
<td>Common</td>
<td>Stephen T. Wills</td>
<td>155,570(4)</td>
<td>2.1%</td>
<td>*</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7.0%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>2.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>9.2%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>6.4%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7.1%</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>5.0%</td>
<td></td>
</tr>
<tr>
<td>Series A</td>
<td>Lindsay A. Rosenwald, M.D.(9)</td>
<td>15,079(16)</td>
<td>34.3%</td>
<td>3.9%</td>
</tr>
<tr>
<td>Series A</td>
<td>Paramount Capital Asset Management, Inc.(9)</td>
<td>11,000(17)</td>
<td>27.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Series A</td>
<td>The Aries Trust, a Cayman Islands trust(9)</td>
<td>7,150(18)</td>
<td>18.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Series A</td>
<td>Albert Fried, Jr.(13)</td>
<td>3,000</td>
<td>7.7%</td>
<td>*</td>
</tr>
<tr>
<td>Series A</td>
<td>Paramount Capital Asset Management, Inc.(9)</td>
<td>11,000(17)</td>
<td>27.5%</td>
<td>2.9%</td>
</tr>
<tr>
<td>Series A</td>
<td>The Aries Trust, a Cayman Islands trust(9)</td>
<td>7,150(18)</td>
<td>18.1%</td>
<td>1.9%</td>
</tr>
<tr>
<td>Series A</td>
<td>Albert Fried, Jr.(13)</td>
<td>3,000</td>
<td>7.7%</td>
<td>*</td>
</tr>
</tbody>
</table>

*Less than one percent.

(1) Includes 462,541 shares which Mr. Quilty has the right to acquire now or within 60 days after September 27, 1999.
(2) Shares which Mr. Putnam has the right to acquire now or within 60 days after September 27, 1999.

(3) Includes 223,712 shares which Dr. Spana has the right to acquire now or within 60 days after September 27, 1999.

(4) Shares which Mr. Wills has the right to acquire now or within 60 days after September 27, 1999.

(5) Shares which Mr. O’Brien has the right to acquire now or within 60 days after September 27, 1999.

(6) Includes 64,166 shares which Dr. Prendergast has the right to acquire now or within 60 days after September 27, 1999.

(7) Shares which Mr. Moussa has the right to acquire now or within 60 days after September 27, 1999.

(8) Shares which Mr. deVeer has the right to acquire now or within 60 days after September 27, 1999.

(9) Address is c/o Paramount Capital, Inc., 787 Seventh Avenue, New York, NY 10019.

(10) Includes 309,595 shares which Dr. Rosenwald, or persons with whom he shares voting and investment power, have the right to acquire now or within 60 days after September 27, 1999. Dr. Rosenwald shares voting and investment power as to 1,051,597 of the 1,266,407 shares shown in the table with the following persons:

- RAQ, LLC, as to 358,245 shares
- Paramount Capital Asset Management, Inc., as to 692,130 shares
- The Aries Trust, as to 473,551 shares
- Aries Domestic Fund, as to 218,579 shares
- Aries II, as to 1,222 shares

Dr. Rosenwald is the president of RAQ, LLC, and is the president, chairman of the board and sole shareholder of Paramount Capital Asset Management, Inc., which is the investment manager of The Aries Trust and the general partner of Aries Domestic Fund. Dr. Rosenwald and Paramount Capital Asset Management disclaim beneficial ownership of the securities held by The Aries Trust and Aries Domestic Fund, except to the extent of their pecuniary interest, if any. The table does not include any shares owned or issuable upon exercise of warrants held by employees of Paramount Capital, Inc., of which Dr. Rosenwald is the president, or Paramount Capital Investments, of which Dr. Rosenwald is the chairman of the board and president.

(11) Includes 81,002 shares which Paramount Capital Asset Management, or persons with whom it shares voting and investment power, have the right to acquire now or within 60
days after September 27, 1999. Paramount Capital Asset Management shares voting and investment power as to the shares shown in the table with the following persons:

- Lindsay A. Rosenwald, M.D., as to 692,130 shares
- The Aries Trust, as to 473,551 shares
- Aries Domestic Fund, as to 218,579 shares.

Paramount Capital Asset Management is the investment manager of The Aries Trust and the general partner of Aries Domestic Fund. Paramount Capital Asset Management disclaims beneficial ownership of the securities held by The Aries Trust and Aries Domestic Fund, except to the extent of its pecuniary interest, if any. All of the shares owned or purchasable by Paramount Capital Asset Management are also included in the beneficial ownership of Dr. Rosenwald, as explained in note (10) above.

(12) Includes 52,003 shares which The Aries Trust has the right to acquire now or within 60 days after September 27, 1999. The Aries Trust shares voting and investment power as to 473,551 shares with Dr. Rosenwald and Paramount Capital Asset Management. All of the shares owned or purchasable by The Aries Trust are also included in the beneficial ownership of Dr. Rosenwald and of Paramount Capital Asset Management, as explained in notes (10) and (11) above.

(13) Address is c/o Albert Fried & Company, LLC, 40 Exchange Place, New York, NY 10005.

(14) Includes 385,000 shares which Mr. Fried has the right to acquire now or within 60 days after September 27, 1999.

(15) Address is 417 Wakara Way, Salt Lake City, UT 84198.

(16) Includes 5,079 shares which Dr. Rosenwald, or persons with whom he shares voting and investment power, have the right to acquire now or within 60 days after September 27, 1999. Dr. Rosenwald shares voting and investment power as to 11,000 shares. See note (10) above.

(17) Includes 1,000 shares which Paramount Capital Asset Management, or persons with whom it shares voting and investment power, have the right to acquire now or within 60 days after September 27, 1999. Paramount Capital Asset Management shares voting and investment power as to 11,000 shares. See note (11) above.

(18) Includes 650 shares which The Aries Trust, or persons with whom it shares voting and investment power, have the right to acquire now or within 60 days after September 27, 1999. The Aries Trust shares voting and investment power as to 7,150 shares. See note (12) above.

(19) Includes 1,189,684 shares which directors and officers have the right to acquire now or within 60 days after September 27, 1999.

TheraTech, Inc. In March 1998, we entered into a license and development agreement with TheraTech in connection with, among other things, the development of PT-14, and executed a letter of intent in connection with a proposed loan from TheraTech which would be convertible into a series of preferred stock. This loan transaction did not take place, but in July 1998, we sold 363,636 shares of common stock to TheraTech for $2,000,000. James T. O’Brien, a director of Palatin, was also a director of TheraTech. Mr. O’Brien recused himself from voting on the transactions with TheraTech and the transactions were approved by a vote of the disinterested directors.

Summercloud Bay. In October 1997, we entered into a consulting agreement with Summercloud Bay, Inc., a corporation in which John K.A. Prendergast is an officer and sole stockholder, to provide strategic and technology consulting services. Dr. Prendergast is a director of Palatin. Under the agreement, we pay Summercloud Bay $4,500 per month and we issued a stock option to Summercloud Bay under our 1996 stock option plan to purchase 50,000 shares of common stock at $7.75 per share. That option is now fully vested and expires in December 2007.

Paramount Capital, Inc. In February 1998, we engaged Paramount to act as a finder in connection with our Series B preferred stock offering. Michael S. Weiss, who was a director of Palatin from July 1996 to April 1999, was Senior Managing Director of Paramount. Mr. Weiss recused himself from voting on the matter, and the Series B offering was approved by a vote of the disinterested directors. As finder, Paramount received a 10% finder’s fee, amounting to $188,750. We also agreed to indemnify Paramount against certain liabilities, including liabilities arising under the Securities Act of 1933, in connection with the Series B offering.

We entered into an introduction agreement with Paramount under which Paramount acted as our non-exclusive financial advisor for a minimum period of 18 months commencing January 1, 1997. Under this agreement, Paramount has received out-of-pocket expenses incurred in connection with services performed under the introduction agreement,

- a retainer of $72,000 and
- warrants to purchase 17,052 shares of common stock at $6.45 to $6.56 per share, issued to a designee of Paramount Capital, Inc.

Paramount will receive a percentage or lump sum success fees in the event that it assists us in connection with certain financing and strategic transactions.

In connection with private placements of common stock and warrants from December 1998 to March 1999, in which we raised an aggregate of $6,184,000, we paid Paramount a total of $325,020 in fees and commissions, and issued warrants to designees of Paramount including Lindsay A. Rosenwald, M.D., to purchase a total of 186,923 shares of common stock at $4.70 to $5.06 per share.

Employment agreements and option grants. We have employment agreements with Messrs. Quilty, Putnam, Spana and Wills, as described in Item 10, Executive Compensation. We have granted stock options to Messrs. Quilty, Putnam, Spana and Wills, and to our four non-employee directors. These option grants are described in Item 10, Executive Compensation.
Buck A. Rhodes, Ph.D. Dr. Rhodes was a director of RhoMed from its inception until June 30, 1996, was president of RhoMed from its inception until March 7, 1996, and was a director of Palatin from June 25, 1996 through June 30, 1996. Under a consulting agreement dated March 7, 1996 between Dr. Rhodes and RhoMed, we paid Dr. Rhodes $6,833 per month from April 1996 through March 1998 for consulting services.

Item 13. Exhibits and Reports on Form 8-K.

(a) Exhibits

The following exhibits are filed with this report, or incorporated by reference as noted:


2.2 Waiver and Consent dated as of June 24, 1996, between Interfilm, Inc., Interfilm Acquisition Corp. and RhoMed Incorporated. Incorporated by reference to Exhibit 2.2 of our Annual report on Form 10-KSB for the period ended June 30, 1996, filed with the SEC on September 27, 1996.

3.1 Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on November 3, 1993. Incorporated by reference to Exhibit 3.1 of our current report on Form 8-K dated July 19, 1996, filed with the SEC on August 9, 1996.

3.2 Amendment to the Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on July 19, 1996. Incorporated by reference to Exhibit 3.2 of our current report on Form 8-K dated July 19, 1996, filed with the SEC on August 9, 1996.

3.3 Bylaws. Incorporated by reference to Exhibit 3.2 of our Form 10-QSB for the quarter ended December 31, 1997, filed with the SEC on February 13, 1998.

3.4 Certificate of Designations of Series A Convertible Preferred Stock, as filed with the Delaware Secretary of State on February 21, 1997. Incorporated by reference to Exhibit 3.6 of our Form 10-QSB/A Amendment No. 2 for the quarter ended March 31, 1997, filed with the SEC on July 17, 1997.

3.5 Amendment to the Restated Certificate of Incorporation, as filed with the Delaware Secretary of State on September 5, 1997. Incorporated by reference to Exhibit 3.7 of our Form 10-KSB for the year ended June 30, 1997, filed with the SEC on September 26, 1997.


3.7 Certificate of Designations of Series C Preferred Stock, as filed with the Delaware Secretary of State on August 17, 1999. (b)

3.8 Specimen certificate for common stock. Incorporated by Reference to Exhibit 4.1 of our current report on Form 8-K dated July 19, 1996, filed with the SEC on August 9, 1996.
4.2 Specimen certificate for Series A Convertible Preferred Stock. Incorporated by reference to Exhibit 4.6 of our Form 10-QSB/A Amendment No. 2 for the quarter ended March 31, 1997, filed with the SEC on July 17, 1997.


4.4 Specimen certificate for Series C Convertible Preferred Stock. (b)

10.1 RhoMed Incorporated 1995 Employee Incentive Stock Option Plan. Incorporated by reference to Exhibit 10.04 of our annual report on Form 10-KSB for the period ended June 30, 1996, filed with the SEC on September 27, 1996. (a)

10.2 1996 Stock Option Plan, as amended effective July 1, 1999. (a) (b)

10.3 Carl Spana Stock Option Agreement. Incorporated by reference to Exhibit 4.15 of our Form S-8 filed with the SEC on June 17, 1998. (a)

10.4 Charles L. Putnam Stock Option Agreement. Incorporated by reference to Exhibit 4.16 of our Form S-8 filed with the SEC on June 17, 1998. (a)

10.5 1997 Executive Officers Stock Option Agreement. Incorporated by reference to Exhibit 4.18 of our Form S-8 filed with the SEC on June 17, 1998. (a)


10.9 Employment Agreement dated July 9, 1999 between Palatin Technologies, Inc. and Edward J. Quilty. (a) (b)

10.10 Form of RhoMed Class A Warrant. Incorporated by reference to Exhibit 10.16 of our annual report on Form 10-KSB for the period ended June 30, 1996, filed with the SEC on September 27, 1996.

10.11 Form of Placement Agent Warrant for the RhoMed Class A Offering. Incorporated by reference to Exhibit 10.17 of our annual report on Form 10-KSB for the period ended June 30, 1996, filed with the SEC on September 27, 1996.

10.12 Form of RhoMed Class B Warrant. Incorporated by reference to Exhibit 10.19 of our annual report on Form 10-KSB for the period ended June 30, 1996, filed with the SEC on September 27, 1996.

10.13 Form of Placement Agent Warrant for the RhoMed Class B Offering. Incorporated by reference to Exhibit 10.20 of our annual report on Form 10-KSB for the period ended June 30, 1996, filed with the SEC on September

10.15 Form of Placement Agent Warrant for the Series A Convertible Preferred Stock Offering. Incorporated by reference to Exhibit 10.29 of our registration statement on Form S-3, filed with the SEC on November 25, 1997.


10.21 Strategic Collaboration Agreement dated as of August 17, 1999, between Palatin and Mallinckrodt, Inc. (c)

21 Subsidiaries. (b)

23 Consent of Arthur Andersen LLP. (b)

27 Financial Data Schedule. (b)

------------------------
(a) Management contract or compensatory plan or arrangement.
(b) Filed as an exhibit to this report.
(c) Filed as an exhibit to this report. We have requested confidential treatment of certain provisions contained in Exhibit 10.21. The copy filed as an exhibit omits the information subject to the confidentiality request.

b) Reports on Form 8-K

We filed one report on Form 8-K during the three months ended June 30, 1999. We filed the report on May 5, 1999, with a date of April 30, 1999, and reported on Item 5, Other Events, relating to completion of a private placement
SIGNATURES
In accordance with Section 13 or 15(d) of the Exchange Act, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PALATIN TECHNOLOGIES, INC.

By: /s/ Edward J. Quilty

Edward J. Quilty
Chairman of the Board, President and Chief Executive Officer
Date: September 28, 1999

In accordance with the Exchange Act, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

<table>
<thead>
<tr>
<th>Signature</th>
<th>Title</th>
<th>Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>/s/ Edward J. Quilty</td>
<td>Chairman of the Board, President and Chief Executive Officer (principal executive officer)</td>
<td>September 28, 1999</td>
</tr>
<tr>
<td>/s/ Charles L. Putnam</td>
<td>Executive Vice President and Director</td>
<td>September 28, 1999</td>
</tr>
<tr>
<td>/s/ Carl Spana</td>
<td>Executive Vice President and Director</td>
<td>September 28, 1999</td>
</tr>
<tr>
<td>/s/ Stephen T. Wills</td>
<td>Executive Vice President and Chief Financial Officer (principal financial and accounting officer)</td>
<td>September 28, 1999</td>
</tr>
<tr>
<td>/s/ James T. O'Brien</td>
<td>Director</td>
<td>September 28, 1999</td>
</tr>
</tbody>
</table>
Table of Contents
Consolidated Financial Statements

The following Consolidated financial statements of the Company are filed as part of this Report:

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Report of Independent Public Accountants........................................F-1
Consolidated Balance Sheets..........................................................F-2
Consolidated Statements of Operations..........................................F-3
Consolidated Statements of Stockholders' Equity (Deficit).................F-4
Consolidated Statements of Cash Flows..........................................F-7
Notes to Consolidated Financial Statements..................................F-9

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders and Board of Directors of Palatin Technologies, Inc.:

We have audited the accompanying consolidated balance sheets of Palatin Technologies, Inc. (a Delaware corporation in the development stage) and subsidiaries as of June 30, 1999 and 1998, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the three years in the period ended June 30, 1999, and for the period from January 28, 1986 (inception) to June 30, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing
standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Palatin Technologies, Inc. and subsidiaries as of June 30, 1999 and 1998 and the results of their operations and their cash flows for each of the periods indicated above, in conformity with generally accepted accounting principles.

ARTHUR ANDERSEN LLP
Philadelphia, PA
August 20, 1999

PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Consolidated Balance Sheets

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1999</th>
<th>June 30, 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>ASSETS</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current assets:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash</td>
<td>$2,333,801</td>
<td>$4,326,187</td>
</tr>
<tr>
<td>Short term investments</td>
<td>454,827</td>
<td>-</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>147,780</td>
<td>277,765</td>
</tr>
<tr>
<td>Total current assets</td>
<td>2,936,408</td>
<td>4,603,952</td>
</tr>
<tr>
<td>Fixed assets, net of accumulated depreciation and amortization of $676,362 and $454,705 respectively</td>
<td>1,457,605</td>
<td>1,610,117</td>
</tr>
<tr>
<td>Restricted cash</td>
<td>185,000</td>
<td>185,000</td>
</tr>
<tr>
<td>Other</td>
<td>144,032</td>
<td>76,000</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$4,723,045</td>
<td>$6,475,069</td>
</tr>
</tbody>
</table>

**LIABILITIES AND STOCKHOLDERS' EQUITY**

| Current liabilities: |              |              |
| Accounts payable     | $1,116,894   | $461,546     |
| Accrued expenses     | 1,264,893    | 1,134,388    |
| Current portion of long term debt | 939,588     |              |
| **Total**            |              |              |
Total current liabilities

\[ 2,381,787 \quad 2,535,522 \]

Deferred license revenue

\[ - \quad 550,000 \]

Long-term debt, net of current portion

\[ 2,000,000 \quad - \]

\[ 2,000,000 \quad 550,000 \]

Commitments and contingencies (Note 10)

Stockholders’ equity:

Preferred stock of $.01 par value—authorized 10,000,000 shares;
Series A Convertible; 42,484 and 88,329 shares issued and outstanding
— as of June 30, 1999 and 1998, respectively;
425 \quad 883

Series B Convertible; 13,575 and 18,875 shares issued and outstanding
— as of June 30, 1999 and 1998, respectively;
136 \quad 189

Common stock of $.01 par value—authorized 75,000,000 shares;
— issued and outstanding 7,137,595 and 4,099,623 shares as of June 30, 1999
— and 1998 respectively;
71,376 \quad 40,996

Additional paid-in capital

35,610,243 \quad 27,183,638

Unamortized deferred compensation

(18,558) \quad (516,179)

Deficit accumulated during development stage

(35,322,364) \quad (23,319,980)

341,258 \quad 3,389,547

4,723,045 \quad 6,475,069

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

F-2
License fees and royalties ........................................... 1,234,296  550,000  -  350,000
Other .............................................................................. 318,917  -  -  22,184

Total revenues ............................................................ 4,857,842  609,977  33,967  722,357

OPERATING EXPENSES:
Research and development ............................................. 23,637,669  8,719,562  7,111,716  3,409,983
General and administrative ............................................. 14,785,001  3,957,401  2,990,756  2,533,883
Net intangibles write down ............................................... 259,334  -  -  -

Total operating expenses ............................................. 38,682,993  10,943,866

OTHER INCOME (EXPENSES):
Interest income ............................................................ 948,400  172,241  408,770  296,009
Interest expense .......................................................... (1,921,602)  (107,639)  (227,143)  (374,664)
Merger costs ................................................................. (525,000)  -  -  -

Total other income/(expenses) ...................................... (1,498,202)  64,602  181,627  (78,655)

NET LOSS ................................................................. (35,322,364)  (12,902,384)  (9,886,878)  (5,300,164)

PREFERRED STOCK DIVIDEND ........................................ (3,121,525)  -  (232,590)  (2,888,935)

NET LOSS ATTRIBUTABLE TO COMMON $ (38,443,889)  (12,902,384)  (10,119,468)  (8,189,099)

Basic and diluted net loss per Common share ................... $ (31.57)  $ (2.02)  $ (3.15)  $ (2.80)

Weighted average number of Common shares
outstanding used in computing basic and diluted net loss per Common share 1,217,670  5,936,498  3,210,684  2,924,073

The accompanying notes to consolidated financial statements are an integral part of these financial statements.
### Consolidated Statements of Stockholders' Equity (Deficit)

#### Preferred Stock

<table>
<thead>
<tr>
<th>Shares</th>
<th>Amount</th>
<th>Subscriptions</th>
<th>Receivable</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance at inception</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Preferred stock subscriptions</td>
<td>4,000</td>
<td>(4,000)</td>
<td></td>
</tr>
<tr>
<td>Issuance of shares from inception</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss from inception</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, August 31, 1995</td>
<td>4,000</td>
<td>(4,000)</td>
<td></td>
</tr>
<tr>
<td>Preferred stock subscriptions</td>
<td>(4,000)</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Issuance of Preferred shares</td>
<td>4,000,000</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Issuance of Common shares on</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares earned but not issued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 25, 1996</td>
<td>4,000,000</td>
<td>4,000</td>
<td></td>
</tr>
<tr>
<td>Conversion to Palatin Technologies, Inc.</td>
<td>(4,000,000)</td>
<td>(4,000)</td>
<td></td>
</tr>
<tr>
<td>Adjusted balance, June 25, 1996</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares outstanding of Palatin</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 30, 1996</td>
<td>137,780</td>
<td>1,378</td>
<td></td>
</tr>
<tr>
<td>Issuance of Preferred shares, net of expenses</td>
<td>18,875</td>
<td>189</td>
<td></td>
</tr>
<tr>
<td>Shares earned but not issued</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conversion of Preferred shares into Common shares</td>
<td>(49,451)</td>
<td>(495)</td>
<td></td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement treasury shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 30, 1997</td>
<td>107,204</td>
<td>1,072</td>
<td></td>
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<tr>
<td>Issuance of Preferred shares, net of expenses</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Shares earned but not issued</td>
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<td></td>
</tr>
<tr>
<td>Conversion of Preferred shares into Common shares</td>
<td>(51,145)</td>
<td>(511)</td>
<td></td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retirement treasury shares</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Net loss</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Balance, June 30, 1999</td>
<td>56,950</td>
<td>$ 561</td>
<td>$</td>
</tr>
</tbody>
</table>

---

**Palatin Technologies, Inc.**

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)
The accompanying notes to consolidated financial statements are an integral part of these financial statements.

PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Consolidated Statements of Stockholders' Equity (Deficit)
- Continued -

<table>
<thead>
<tr>
<th>Common Stock</th>
<th>Deficit</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares</td>
<td>Amount</td>
</tr>
<tr>
<td>-----------</td>
<td>--------</td>
</tr>
<tr>
<td>Balance at inception</td>
<td>$</td>
</tr>
<tr>
<td>Preferred stock subscriptions</td>
<td>$</td>
</tr>
<tr>
<td>Issuance of shares from inception</td>
<td>6,922,069</td>
</tr>
<tr>
<td>Net loss from inception</td>
<td>$</td>
</tr>
<tr>
<td>Balance, August 31, 1995</td>
<td>49,558,217</td>
</tr>
<tr>
<td>Preferred stock subscriptions</td>
<td>$</td>
</tr>
<tr>
<td>Issuance of Preferred shares</td>
<td>$</td>
</tr>
<tr>
<td>Issuance of Common shares on $10,395,400 private placement</td>
<td>41,581,600</td>
</tr>
<tr>
<td>Shares earned but not issued</td>
<td>$</td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td>$</td>
</tr>
<tr>
<td>Net loss</td>
<td>$</td>
</tr>
<tr>
<td>Balance, June 25, 1995</td>
<td>2,884,694</td>
</tr>
<tr>
<td>Conversion to Palatin Technologies, Inc.</td>
<td>(46,807,465)</td>
</tr>
<tr>
<td>Adjusted balance, June 25, 1995</td>
<td>2,750,752</td>
</tr>
<tr>
<td>Shares outstanding of Palatin Technologies, Inc.</td>
<td>108,188</td>
</tr>
<tr>
<td>Issuance of Common shares stock</td>
<td>25,754</td>
</tr>
<tr>
<td>Purchase of treasury stock</td>
<td>$</td>
</tr>
<tr>
<td>Balance, June 30, 1995</td>
<td>2,884,694</td>
</tr>
<tr>
<td>Shares, net of expenses</td>
<td>$</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Shares, net of expenses</th>
<th>-</th>
<th>11,637,031</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares earned but not issued</td>
<td>-</td>
<td>250,141</td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td>135,987</td>
<td>1,360</td>
</tr>
<tr>
<td>Retirement treasury shares</td>
<td>(308)</td>
<td>3</td>
</tr>
<tr>
<td>below fair market value</td>
<td>1,472,716</td>
<td>(1,472,716)</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>-</td>
<td>394,383</td>
</tr>
<tr>
<td>Net loss</td>
<td>-</td>
<td>(5,300,164)</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
</tbody>
</table>
| F-5

Balance, June 30, 1997

<table>
<thead>
<tr>
<th>Shares, net of expenses</th>
<th>-</th>
<th>11,637,031</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares earned but not issued</td>
<td>-</td>
<td>250,141</td>
</tr>
<tr>
<td>Issuance of Preferred shares</td>
<td>-</td>
<td>250,141</td>
</tr>
<tr>
<td>Issuance of Preferred shares expense recapture</td>
<td>-</td>
<td>49,733</td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td>66,696</td>
<td>666</td>
</tr>
<tr>
<td>-upon conversion of Preferred shares</td>
<td>1,012,554</td>
<td>10,126</td>
</tr>
<tr>
<td>below fair market value</td>
<td>1,161,156</td>
<td>(1,161,156)</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>-</td>
<td>1,723,310</td>
</tr>
<tr>
<td>Net loss</td>
<td>-</td>
<td>(9,886,878)</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
</tbody>
</table>
| F-5

Balance, June 30, 1998

<table>
<thead>
<tr>
<th>Shares, net of expenses</th>
<th>-</th>
<th>11,637,031</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares earned but not issued</td>
<td>-</td>
<td>250,141</td>
</tr>
<tr>
<td>Issuance of Preferred shares</td>
<td>-</td>
<td>250,141</td>
</tr>
<tr>
<td>Issuance of Preferred shares expense recapture</td>
<td>-</td>
<td>49,733</td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td>1,842,101</td>
<td>18,421</td>
</tr>
<tr>
<td>-upon conversion of Preferred shares</td>
<td>1,115,740</td>
<td>11,158</td>
</tr>
<tr>
<td>below fair market value</td>
<td>811,054</td>
<td>(811,054)</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>-</td>
<td>1,308,675</td>
</tr>
<tr>
<td>Net loss</td>
<td>-</td>
<td>(12,002,384)</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
</tbody>
</table>
| F-5

Balance, June 30, 1999

<table>
<thead>
<tr>
<th>Shares, net of expenses</th>
<th>-</th>
<th>11,637,031</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shares earned but not issued</td>
<td>-</td>
<td>250,141</td>
</tr>
<tr>
<td>Issuance of Preferred shares</td>
<td>-</td>
<td>250,141</td>
</tr>
<tr>
<td>Issuance of Preferred shares expense recapture</td>
<td>-</td>
<td>49,733</td>
</tr>
<tr>
<td>Issuance of Common shares</td>
<td>7,137,595</td>
<td>71,376</td>
</tr>
<tr>
<td>-upon exercise of warrants</td>
<td>9,874</td>
<td>99</td>
</tr>
<tr>
<td>-upon exercise of options</td>
<td>70,257</td>
<td>703</td>
</tr>
<tr>
<td>below fair market value</td>
<td>811,054</td>
<td>(811,054)</td>
</tr>
<tr>
<td>Amortization of deferred compensation</td>
<td>-</td>
<td>1,308,675</td>
</tr>
<tr>
<td>Net loss</td>
<td>-</td>
<td>(341,267)</td>
</tr>
<tr>
<td>--------------</td>
<td>--------------</td>
<td>--------------</td>
</tr>
</tbody>
</table>
| F-6

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

PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
<table>
<thead>
<tr>
<th>Date</th>
<th>Inception</th>
<th>Ended</th>
<th>Ended</th>
<th>Ended</th>
</tr>
</thead>
<tbody>
<tr>
<td>(January 28,</td>
<td>Year 1986</td>
<td>Year</td>
<td>Year</td>
<td>Year</td>
</tr>
<tr>
<td>through</td>
<td>through</td>
<td>Ended</td>
<td>Ended</td>
<td>Ended</td>
</tr>
</tbody>
</table>

**CASH FLOWS FROM OPERATING ACTIVITIES:**

- Net loss $(35,322,364) $(12,002,384) $(9,886,878) $(5,300,164)
- Adjustments to reconcile net loss to net cash used for operating activities:
  - Depreciation and amortization 837,279 232,625 230,160 65,920
  - License fee 500,000 500,000
  - Interest expense on note payable 72,691
  - Accrued interest on long-term financing 7,936
  - Intangibles and equipment write down 278,318
  - Common stock and notes payable issued for expenses 751,038 127,350 77,500 100,000
  - Settlement with consultant (28,731)
  - Deferred revenue (550,000)
  - Amortization of deferred compensation 3,426,368 1,308,675 1,723,310 394,383
- Changes in certain operating assets and liabilities:
  - Accounts receivable 84,562 (79,988)
  - Prepaid expenses and other (147,781) 129,985 (102,770) 108,566
  - Other (709,709) (79,000) (199,010) (4,353)
  - Accounts payable 1,115,994 655,348 145,273 101,849
  - Accrued expenses and other 804,626 130,505 (189,229) (4,353)
- Net cash used for operating activities (27,618,288) (10,761,062) (7,617,082) (4,126,684)

**CASH FLOWS FROM INVESTING ACTIVITIES:**

- Purchases of short term investments (454,827) (424,827)
- Purchases of property and equipment (2,189,308) (60,145) (1,505,229) (279,705)
- Net cash used for investing activities (2,644,135) (523,972) (1,505,229) (279,705)

**CASH FLOWS FROM FINANCING ACTIVITIES:**

- Proceeds from notes payable, related party 302,000
- Payments on notes payable, related party (302,000) (80,000)
- Proceeds from senior bridge notes payable 1,850,000
- Payments on senior bridge notes payable (1,850,000) (1,000,000)
- Proceeds from notes payable and long-term debt 3,951,327 2,000,000
- Payments on notes payable and long-term debt (1,951,327) (930,558) (869,551) (230,175)
- Proceeds from stock warrants 100,000
- Proceeds from Common stock, stock option issuances, net 17,287,565 7,518,070 18,037 14,050
- Proceeds from Preferred stock, net 13,210,326 1,573,295 11,637,031
- Purchase of treasury stock (1,667)
The accompanying notes to consolidated financial statements are an integral part of these financial statements.

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SUPPLEMENTAL CASH FLOW INFORMATION:

- Cash paid for interest                                $598,343          $ 87,536         $281,285        $151,999

NON-CASH TRANSACTION:

- Settlement of accounts payable with equipment       $  900         $      -          $       -        $       -

NON-CASH STOCK ACTIVITY:

- Conversion of loans from employees to Common stock   $ 74,187         $      -          $       -        $       -
    Conversion of note payable to Common stock         $ 16,000         $      -          $       -        $       -
    Common stock issued for equipment                  $  2,327         $      -          $       -        $       -
    Common stock issued for expenses (included above)  $ 884,565         $127,350         $ 77,500        $394,383
    Common stock issued for accrued salaries and bonuses$ 16,548         $      -          $       -        $       -
    Accrued interest payable in Common stock           $679,097         $      -          $       -        $303,171

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

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(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(TM), 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").

Corporate History -- Palatin, formerly Interfilm, Inc., was incorporated
under the laws of the State of Delaware on November 21, 1986. From November 4,
1993 until May 10, 1995, the date on which the Board of Directors substantially
curtailed the operations of the Company, the Company had been primarily engaged
in the business of exploiting rights related to its interactive motion picture
process, including the production and distribution of interactive motion
tables for initial exhibition in theaters and subsequently in enhanced
versions for distribution to the home market. On June 25, 1996, a newly formed,
wholly-owned subsidiary of the Company, Interfilm Acquisition Corporation
("InSub"), a New Mexico corporation, merged with and into RhoMed Incorporated
("RhoMed"), a New Mexico corporation, with all outstanding shares of RhoMed
equity securities ultimately being exchanged for the Company's common stock (the
"Merger"). As a result of the Merger, RhoMed became a wholly-owned subsidiary of
the Company, with the holders of RhoMed preferred stock and RhoMed common stock
(including the holders of "RhoMed Securities" as hereafter defined) receiving an
aggregate of approximately 96% interest in the equity securities of the Company
on a fully-diluted basis. Additionally, all warrants and options to purchase
common stock of RhoMed outstanding immediately prior to the Merger (the "RhoMed
Securities"), including without limitation, any rights underlying RhoMed's
qualified or non-qualified stock option plans, were automatically converted into
rights upon exercise to receive the Company's common stock in the same manner in
which the shares of RhoMed common stock were converted. Since the former
stockholders of RhoMed retained more than a 50% controlling interest in the
surviving company (Palatin), the Merger was accounted for as a reverse merger,
with RhoMed deemed as the acquiror for accounting purposes. The business of
RhoMed, conducted by Palatin since June 25, 1996, represents the on-going
business of Palatin. Certain assets and liabilities of the Company and a
subsidiary existing prior to the Merger, consisting principally of certain
intellectual property and litigation claims against Sony Corporation of America
and related entities, were transferred to an unaffiliated limited liability
partnership for the benefit of the Company's stockholders of record as of June
21, 1996 (pre-Merger stockholders). The historical financial statements prior to
June 25, 1996, are those of RhoMed, except that the stock transactions have been
presented in the notes on an as if converted basis. References to the Company's
activities, results of operations and financial condition prior to June 25, 1996
are to RhoMed unless otherwise specified.

Charter Amendment - On September 5, 1997, an amendment to the Restated
Certificate of Incorporation of the Company (the "Amendment") was filed, which:

(i) increased the total number of authorized shares of Common Stock from
25,000,000 to 75,000,000.

(ii) Increased the total number of authorized shares of Preferred Stock
from 2,000,000 to 10,000,000.

(iii) Effected a 1-for-4 reverse split of Common Stock.
(iv) The consolidated financial statements have been retroactively restated to reflect the Amendment.

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(2) BUSINESS RISK AND LIQUIDITY:

As shown in the accompanying financial statements, the Company incurred substantial net losses of $12,002,384 for the year ended June 30, 1999 and has a deficit accumulated in the development stage of $35,322,364 as of June 30, 1999. The Company anticipates incurring additional losses over at least the next several years, and such losses are expected to increase as the Company expands its research and development activities relating to various technologies. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, conduct pre-clinical studies and clinical trials, obtain required regulatory approvals and successfully manufacture and market such technologies and proposed products. The time required to reach profitability is highly uncertain, and there can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

Management plans to continue to refine its operations, control expenses, evaluate alternative methods to conduct its business, and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements similar to the one signed on August 16, 1999 with Mallinckrodt, Inc. (see Note 15), or other resources. Management believes that through one or a combination of such factors that it will be able to obtain adequate financing to fund the Company’s operations through fiscal year 2001, based on current expenditure levels. There can be no assurance that the Company’s efforts will be successful.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Principles of Consolidation -- The consolidated financial statements include the accounts of Palatin and its wholly owned inactive subsidiaries, RhoMed, Inc. and Interfilm Technologies, Inc. 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.

Fiscal Year -- Effective June 30, 1996, Palatin and RhoMed each changed its fiscal year end to June 30. The fiscal year ends of Palatin and RhoMed prior to the Merger were December 31 and August 31, respectively.

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

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.

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

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

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. However, certain stock options were issued under non-plan option agreements and a non-qualified stock option plan at exercise prices below market value. The difference between the exercise price and the market value of these securities has been recorded as deferred compensation and is being expensed over the vesting period of the option. In addition, during the fiscal year stock options were granted to non-employees which vest over one to four years. The deemed value for accounting purposes of such options is recorded as deferred compensation and is being expensed over the vesting period of the option.


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 years ended June 30, 1999, 1998 and 1997 and for the period from inception (January 28, 1986) through June 30, 1998, there were no dilutive effects of stock options or warrants as the Company incurred a net loss in each period. Options and warrants to purchase 4,467,999 shares of Common Stock at prices ranging from $0.20 to $360 per share were outstanding at June 30, 1999. In accordance with the provisions of SFAS 128, EPS for prior periods have been restated.

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 years ended June 30, 1999, 1998 and 1997, 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) RELATED PARTY TRANSACTIONS:

During the fiscal year ended August 31, 1995, the Company encountered serious liquidity and working capital deficiencies. As a result, effective April 1995, the Company entered into a letter of intent with The Castle Group Ltd. ("Castle"), a company controlled by Lindsay A. Rosenwald, M.D. ("Dr. Rosenwald"), under which Castle agreed to arrange for a line of credit of up to $300,000 to finance ongoing operations; agreed to arrange for future financings; and the Company agreed to sell to Castle or its designees, for $4,000 consideration paid, 4,000,000 shares of preferred stock which converted into 466,952 shares of Common Stock. At the time the letter of intent was entered into with Castle, the Company was insolvent and its equity had nominal value; accordingly, the sale of preferred stock to Castle or its designees was recorded at the nominal $4,000 consideration paid. The issuance of the preferred stock to designees of Castle was consummated on October 25, 1995 and resulted in Dr. Rosenwald and his designees obtaining majority ownership and control of the Company on that date.

On July 28, 1995, the Board of Directors approved an offering of senior bridge notes and warrants (the "Class A Offering"), for which Paramount Capital, Inc. ("Paramount"), of which Dr. Rosenwald is the Chairman, served as placement agent. Two of the then three members of the Board of Directors of RhoMed were employees of entities controlled by Dr. Rosenwald. The transaction and selection of the placement agent was ratified by disinterested stockholders on August 15, 1995. Paramount received (i) a cash commission equal to 6% of the gross proceeds from the sale of the units or $60,000, (ii) a non-accountable expense allowance equal to 3% of gross proceeds or $30,000 and (iii) placement agent's warrants, on the same terms as the warrants, equal to 15% of the Common Stock underlying the warrants issued in the Class A Offering. Additionally, investment funds managed by a company of which Dr. Rosenwald is president purchased senior bridge notes with a face value of $100,000 and warrants to purchase 13,824 shares of Common Stock at $.22 per share.

On November 27, 1995, the Company's Board of Directors approved an offering of senior bridge notes and warrants (the "Class B Offering"), for which Paramount served as placement agent, which was approved by the two disinterested directors. Paramount received (i) a cash commission equal to 9% of the gross proceeds from the sale of the units or $76,500, (ii) a non-accountable expense allowance equal to 4% of gross proceeds or $34,000 and (iii) placement agent's warrants at an exercise price of $6.52 per share but otherwise on the same terms as the warrants, equal to 5% of the Common Stock underlying the warrants issued in the Class B Offering. Additionally, investment funds managed by a company of which Dr. Rosenwald is president purchased senior bridge notes with a face value of $100,000 and warrants to purchase 4,608 shares of Common Stock at $2.72 per share.

On March 4, 1996, the Board of Directors approved an offering of common stock (the "Common Stock Offering") and authorized an offering committee of the Board of Directors, consisting of the two disinterested directors, to determine the placement agent for the Common Stock Offering. The selection of Paramount as placement agent was approved by the disinterested directors, who concluded that alternative means of financings were not available to the Company on terms more favorable than the Common Stock Offering. The price per share of common stock in the Common Stock Offering of $5.44 was determined through negotiations between
the Company and Paramount. On May 14, 1996, the disinterested directors approved an increase in the Common Stock Offering. Paramount received (i) a cash commission equal to 9% of the gross proceeds from the sale of the units or $868,000, (ii) a non-accountable expense allowance equal to 4% of gross proceeds or $386,000 and (iii) placement agent’s warrants, equal to 10% of the common stock issued in the Common Stock Offering, at an exercise price of $6.52 per common stock share, which are freely exercisable, terminate ten years from the date of issuance and have certain registration rights. Additionally investment funds managed by a company of which Dr. Rosenwald is president purchased 322,674 shares of Common Stock at $5.44 per share.

On December 2, 1996, the Board of Directors approved an offering of Series A Preferred Convertible Stock (the “Series A Preferred Offering”), which was approved by the four disinterested directors. The selection of Paramount as placement agent was approved by the disinterested directors, who concluded that alternative means of financings were not available to the Company on terms more favorable than the Series A Preferred Offering. The Series A Preferred Convertible Stock was initially convertible into Common Stock at a 15% discount to the average closing bid price of the Company’s Common Stock for the twenty (20) consecutive trading days immediately preceding the final closing. The 15% discount on conversion of the Series A Preferred Convertible Stock to Common Stock was determined through negotiations between the Company and the placement agent. The 15% discount has been reflected in the Company’s consolidated statement of operations as a dividend to the Series A Preferred Convertible Stock of $2,888,935. The Series A Preferred Convertible Stock is currently convertible into Common Stock at a price per share of Common Stock of $4.67. Paramount received (i) a cash commission equal to 9% of the gross proceeds from the sale of the units or $1,240,020, (ii) a non-accountable expense allowance equal to 4% of gross proceeds or $551,120 and (iii) placement agent’s warrants, equal to 10% of the Series A Preferred Convertible Stock issued in the Series A Preferred Offering at an exercise price of $11.00 per share of Series A Preferred Convertible Stock, which terminate ten years from the date of issuance and have certain registration rights. The Company has valued those warrants at $573,537. In the Series A Preferred Offering, investment funds managed by a company of which Dr. Rosenwald is president purchased 10,000 shares of Series A Preferred Convertible Stock at $100 per share.

Pursuant to the placement agency agreement for the Series A Preferred Offering, the Company entered into an introduction agreement with Paramount (the "Introduction Agreement"), under which Paramount acts as the Company’s non-exclusive financial advisor for a minimum period of 18 months commencing January 1, 1997, and received (i) out-of-pocket expenses incurred in connection with services performed under the Introduction Agreement, (ii) a retainer of $72,000, (iii) a warrant to purchase 6,250 shares of Common Stock at $8.75 per share issued to a designee of Paramount and (iv) will receive a percentage or lump sum success fees in the event that Paramount assists the Company in connection with certain financing and strategic transactions. The Introduction Agreement replaced a similar agreement in effect from September 1, 1996 through December 31, 1996, pursuant to which Paramount Capital received a retainer of $5,000 per month and a warrant to purchase 6,250 shares of Common Stock at $9.00 per share issued to a designee of Paramount.

On April 28, 1998, the Board of Directors approved an offering of Series B Preferred Convertible Stock (the "Series B Preferred Offering"), which was approved by the four disinterested directors. The selection of Paramount as finder pursuant to a finder’s fee agreement was approved by the disinterested directors, who concluded that alternative means of financings were not available to the Company on terms more favorable than
the Series B Preferred Offering. The Series B Preferred Convertible Stock was initially convertible into Common Stock at a conversion price per share of Common Stock of $5.50, 12.3% discount to the average closing bid price of the Company's Common Stock as of the closing, which conversion price was determined through negotiations between the Company and the investors. The 12.3% discount has been reflected in the Company's consolidated statement of operations as a dividend to the Series B Preferred Convertible Stock of $232,590. The Series B Preferred Convertible Stock is currently convertible into Common Stock at a price per share of Common Stock of $3.52. Paramount received a finder's fee equal to 10% of the gross proceeds from the sale of the units or $188,750.

Upon the closing of the equity investments sold during the fiscal year ended June 30, 1999, the Company issued to Paramount, or its designees, pursuant to the Introduction Agreement referenced above; (i) warrants to purchase a total of 186,923 shares of the Company's Common Stock at prices ranging from $4.70 to $5.57, (ii) paid commissions of $295,020 in cash and (iii) paid non accountable expenses of $30,000 in cash.

Management of the Company believes that the terms of the transactions and the agreements described above are on terms at least as favorable as those which it could otherwise have obtained from unrelated parties.

(5) PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

<table>
<thead>
<tr>
<th></th>
<th>June 30, 1999</th>
<th>June 30, 1998</th>
</tr>
</thead>
<tbody>
<tr>
<td>Office equipment</td>
<td>$ 374,147</td>
<td>$ 361,087</td>
</tr>
<tr>
<td>Laboratory equipment</td>
<td>428,162</td>
<td>380,631</td>
</tr>
<tr>
<td>Leasehold improvements</td>
<td>1,331,658</td>
<td>1,323,104</td>
</tr>
</tbody>
</table>

Less: Accumulated depreciation and amortization

|                        | (676,362)    | (454,705)    |

Less: $1,457,605  $1,610,117

(6) INTANGIBLES:

The Company owns or has rights to 24 U.S. patents, seven pending U.S. patent applications, and foreign patents and applications in selected foreign countries corresponding to certain U.S. patents and applications.
(7) LONG-TERM FINANCING:

On May 13, 1999, the Company received $2,000,000 pursuant to a Subordinated Non-negotiable Promissory Note from Mallinckrodt, Inc. Principle and interest, accrued at 9% per annum, was due by December 31, 2000. The Note was secured by the assets of the Company. This note and accrued interest of $46,489 was satisfied pursuant to the execution of a Strategic Collaboration Agreement signed with Mallinckrodt, Inc. on August 17, 1999. (See Note 15)

(8) SENIOR BRIDGE NOTES:

Class A Offering -- On July 28, 1995, the Company initiated the Class A Offering of 40 units, with each unit consisting of a $25,000 face amount senior bridge note and a warrant to purchase 3,456 shares of Common Stock at an exercise price of $.22 per share. All units were purchased, with net proceeds to the Company of approximately $907,000 after payment of the placement agent's commissions and expenses ($90,000) and offering expenses (approximately $3,000). The nominal exercise price for the warrants reflected the seriously troubled financial condition of the Company on the date of the transaction, and accordingly, no value was assigned to the warrants upon issuance. The senior bridge notes sold in the Class A Offering accrued interest at 1% per month, and were payable, with interest, one year from the date of issuance. In August and September of 1996, the Class A Offering notes with accrued interest were repaid in full. The warrants are exercisable at any time, terminate ten years from the date of issuance, and have certain registration rights.

Class B Offering -- On November 27, 1995, the Company initiated the Class B Offering of up to 7.5 units at $100,000 per unit, subsequently increased to 8.5 units, with each unit consisting of a $100,000 face amount senior bridge note and a warrant to purchase an equivalent of 4,608 shares of common stock at an exercise price of $2.72. Net proceeds to the Company were $739,500 after payment of the placement agent’s commissions and expenses ($110,500). Due to the seriously troubled financial condition of the Company on the date of the transaction, no value was assigned to the warrants upon issuance. The senior bridge notes sold in the Class B Offering accrued interest at 1% per month, and were payable, with interest 12 months from the date of issuance, unless accelerated under certain circumstances. On June 28, 1996, the Class B Offering notes with accrued interest were paid in full. The warrants are exercisable at any time, terminate five years from the date of issuance, have certain registration rights, and contain a call provision.

(9) NOTES PAYABLE

In the fiscal year ended August 31, 1992, the Company issued four ten year notes totaling $80,000 as part of a combined stock and debt offering. The notes, in the face amount of $20,000, accrued interest at 10% per year. On November 3, 1997, the notes with accrued interest were paid in full.

(10) COMMITMENTS AND CONTINGENCIES:
Leases -- The Company leases two facilities in New Jersey under non-cancelable operating leases. Future minimum lease payments under those two leases are as follows:

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$223,000</td>
</tr>
<tr>
<td>2001</td>
<td>253,000</td>
</tr>
<tr>
<td>2002</td>
<td>255,330</td>
</tr>
<tr>
<td>2003</td>
<td>204,800</td>
</tr>
<tr>
<td>2004 and thereafter</td>
<td>828,588</td>
</tr>
</tbody>
</table>

$1,969,718

Employment Agreements -- On November 27, 1996, the Board of Directors of the Company ratified an employment agreement (the "Employment Agreement") with Edward J. Quilty ("Mr. Quilty") to serve as President and Chief Executive Officer, originally entered into with RhoMed prior to the Merger. Pursuant to the Employment Agreement, Mr. Quilty was granted an option to acquire such number of shares of common stock as equal a 10% fully diluted equity interest in RhoMed, which as a result of the Merger became an option to purchase Common Stock of the Company at an exercise price of $.22 per share, which option vested in 36 equal increments on each of the first 36 monthly anniversaries of the commencement of Mr. Quilty's employment (the "Initial Option"). The Employment Agreement further provided for anti-dilution options, pursuant to which Mr. Quilty was issued options to acquire the number of shares that, when aggregated with the shares issuable pursuant to the Initial Option, equaled not less than 3.75% of the shares of Common Stock of the Company. The Employment Agreement was for an initial period of one year, with automatic one year extensions, and provided that, on certain termination events, the portion of the options that would otherwise have terminated without vesting, would vest and be exercisable upon termination, and also provided for specified termination pay.

This agreement terminated on July 31, 1999 pursuant to the ratification of a new employment agreement with Mr. Quilty. Under this new employment agreement, Mr. Quilty will continue to serve as Chairman of the Board and Chief Executive Officer. This agreement is for an initial period of three years commencing August 1, 1999.

On October 12, 1998, the Board of Directors ratified employment agreements with three officers of the Company, Stephen T. Wills, Carl Spana, Ph.D. and Charles Putnam effective September 11, 1998. Pursuant to the agreements, each is serving as an Executive Vice President of the Company. The agreements expire in September 2001 and provide for minimum annual salaries ranging from $65,000 to $200,000 respectively. Pursuant to the agreements, each officer was granted options to purchase 50,000 shares of the Company's Common Stock at an exercise price of $2.50, the closing price of the Company's Common Stock on September 11, 1998. These options vest over a two year period with the first 33% vested immediately, the next 33% vested on the first anniversary of the date of grant and the remaining 34% vested on the second anniversary of the date of grant. The
agreements include specified termination pay and vesting of stock options under certain termination events.

Consulting Agreements -- The Company is obligated under three consulting agreements to make payments totaling $112,800 in the year ending June 30, 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.

(11) STOCKHOLDERS' EQUITY (DEFICIT):

Series B Preferred Offering -- As of April 28, 1998, the Company completed a private placement of 18,875 shares of Series B Convertible Preferred Stock at a price per share of $100. The net proceeds to the Company were approximately $1,600,000, after deducting the finder's fee and other expenses of the Series B Preferred Offering.

Each share of Series B Convertible Preferred Stock is convertible at any time, at the option of the holder, into the number of shares of Common Stock equal to $100 divided by the "Series B Conversion Price." The current Series B Conversion Price is $3.52, so each share of Series B Convertible Preferred Stock is currently convertible into approximately 28.4 shares of Common Stock. The conversion price for Series B Convertible Preferred Stock is subject to adjustment upon certain events, including payment of stock dividends, distributions, and tender offer or merger announcements.

Series A Preferred Offering -- On December 2, 1996, the Company commenced the Series A Preferred Offering of units at a price of $100,000 per unit, each unit consisting of 1,000 shares of Series A Convertible Preferred Stock. The final closing on the Series A Preferred Offering was effective as of May 9, 1997, with the Company having sold an aggregate total of 137.78 units, representing 137,780 shares of Series A Convertible Preferred Stock, for net proceeds to the Company of approximately $11,637,000, after deducting commission and other expenses of the Series A Preferred Offering.

Each share of Series A Convertible Preferred Stock is convertible at any time, at the option of the holder, into the number of shares of Common Stock equal to $100 divided by the "Series A Conversion Price". The current Series A Conversion Price is $4.67, so each share of Series A Convertible Preferred Stock is currently convertible into approximately 21.4 shares of Common Stock. The Series A Conversion Price is subject to adjustment, under certain circumstances, upon the sale or issuance of Common Stock for consideration per share less than either (i) the Conversion Price in effect on the date of such sale or issuance, or (ii) the market price of the Common Stock as of the date of such sale or issuance. The Conversion Price is also subject to adjustment upon the occurrence of a merger, reorganization, consolidation, recategorization, stock dividend or stock split which will result in an increase or decrease in the number of shares of Common Stock outstanding.

Common Stock Transactions - At various times in March 1999, the Company sold in a private placement, an aggregate of 514,215 shares of its $.01 par value Common stock and 565,629 detachable five-year non-redeemable warrants.
Each Warrant is exercisable for one share of Common stock at an exercise price equal to the per share Common stock purchase price. The Common stock purchase price, which was based on the average closing bid price for the five business days immediately prior to the respective closing dates, ranged from $4.48 per share to $5.06 per share. The Company received net proceeds of approximately $2,175,000, which is being used for working capital and research and development programs.

In connection with the private placement, the Company paid compensation to third parties consisting of an aggregate of $222,370 in cash and agreed to issue five-year warrants to purchase an aggregate of 114,073 shares of Common stock at not less than the exercise prices of the warrants sold in the private placement.

In February 1999, the Company sold in a private placement 651,750 shares of its $.01 par value Common stock, at $4.00 per share and 651,750 detachable five-year non-redeemable warrants. Each Warrant is exercisable for one share of Common stock at an exercise price of $4.70. The Company received net proceeds of approximately $2,350,000, which is being used for working capital and research and development programs.

In connection with the private placement, the Company paid compensation to third parties consisting of an aggregate of $248,130 in cash and agreed to issue five-year warrants to purchase an aggregate of 194,600 shares of Common stock at $4.70.

On December 31, 1998, the Company sold in a private placement 287,500 shares of its $.01 par value Common stock, at $4.00 per share and 287,500 detachable five-year non-redeemable warrants. Each Warrant is exercisable for one share of Common stock at an exercise price of $4.375 per share. The Company received net proceeds of approximately $1,000,000, which was used for working capital and research and development programs.

In connection with the private placement, the Company paid compensation to third parties consisting of an aggregate of $92,000 in cash and agreed to issue five-year warrants to purchase an aggregate of 60,000 shares of Common stock at prices ranging from $3.75 to $4.375.

On July 8, 1998, the Company sold TheraTech 363,636 shares of Common stock at a sale price of $5.50 per share or $2,000,000. The net proceeds of the offering, approximately $1,964,000, was used for research and development of the dosage form of PT-14, the Company’s peptide hormone product for the treatment of male erectile dysfunction.

In the fiscal year ended June 30, 1999, the Company issued 25,000 shares of Common Stock in exchange for services and recorded compensation expense for the fair market value of $5.094 per share.

In the fiscal year ended June 30, 1998, the Company issued 10,000 shares of Common Stock in exchange for services and recorded compensation expense for the fair market value of $7.75 per share.

On March 4, 1996, the Company initiated the Common Stock Offering of units at $100,000 per unit, with each unit consisting of 18,433 shares of Common Stock at a purchase price of $5.44 per share. The Common Stock Offering was terminated on June 24, 1996, with 96,454 units having been sold, realizing net proceeds of approximately $8,391,000, and resulting in the issuance of 1,777,961 shares of Common Stock.

On June 24, 1996, and pursuant to the Merger, certain stockholders of Interfilm, Inc. prior to the Merger and third parties purchased 138,249 shares of Common Stock at a purchase price of $5.44 per share, with net
proceeds of approximately $748,000. In addition, and pursuant to the Merger, warrants to purchase 69,124 shares of Common Stock at an exercise price of $8.68 were issued to certain stockholders of Interfilm prior to the Merger and third parties. These warrants are exercisable at any time, terminate four years from the date of issuance, have certain registration rights, contain a call provision and are subject to adjustment in certain circumstances.

In the ten months ended June 30, 1996, the Company issued 31,492 shares of Common Stock in exchange for services and recorded compensation expense for the fair market value of the shares.

The Company commenced a private offering of preferred stock in fiscal 1994, and a private offering of units consisting of common stock and common stock warrants in fiscal 1995, both of which were terminated without having raised the minimum required for closing. Stock issuance costs incurred in connection with both offerings were expensed to operations in the fiscal year in which such costs were incurred.

In February 1993, the Company sold 26,912 shares of Common Stock for net proceeds of approximately $577,000.

In September 1992, the Company sold 12,288 shares of Common Stock for net proceeds of approximately $191,000.

In December 1991, the Company issued a private offering memorandum for the sale of units consisting of 1,211 shares of Common Stock and a $20,000 note (see Note 9). Four units were sold for $25,000 per unit.

All pre-Merger common stock issuances were for RhoMed common stock, subsequently converted into the Company's Common Stock as a result of the Merger, and were at issuance prices representing market value of the RhoMed common stock on the date of issuance.

Outstanding Stock Purchase Warrants -- At June 30, 1999, the Company had the following warrants outstanding.
<table>
<thead>
<tr>
<th>Warrant</th>
<th>Common Stock Shares</th>
<th>Exercise Price per Share</th>
<th>Latest Termination Date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class A Offering</td>
<td>65,668</td>
<td>$.22</td>
<td>9/13/05</td>
</tr>
<tr>
<td>Class A Placement Agent</td>
<td>20,737</td>
<td>$.22</td>
<td>9/13/05</td>
</tr>
<tr>
<td>Class B Offering</td>
<td>30,776</td>
<td>2.64</td>
<td>2/15/06</td>
</tr>
<tr>
<td>Class B Placement Agent</td>
<td>2,336</td>
<td>5.43</td>
<td>2/15/06</td>
</tr>
<tr>
<td>Common Stock Offering</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Placement Agent</td>
<td>212,324</td>
<td>5.43</td>
<td>6/25/06</td>
</tr>
<tr>
<td>Merger Warrants</td>
<td>69,124</td>
<td>8.68</td>
<td>6/24/00</td>
</tr>
<tr>
<td>Series A Preferred Offering</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Placement Agent</td>
<td>286,096</td>
<td>4.67</td>
<td>11/9/02</td>
</tr>
<tr>
<td>Palatin Offering #1</td>
<td>939,250</td>
<td>4.375 - 4.70</td>
<td>12/31/03</td>
</tr>
<tr>
<td>Offering #1 Placement Agent</td>
<td>254,600</td>
<td>3.75 - 4.70</td>
<td>12/31/03</td>
</tr>
<tr>
<td>Palatin Offering #2</td>
<td>565,629</td>
<td>4.48 - 5.06</td>
<td>3/9/04</td>
</tr>
<tr>
<td>Offering #2 Placement Agent</td>
<td>114,073</td>
<td>4.48 - 5.57</td>
<td>3/9/04</td>
</tr>
<tr>
<td>Other Warrants</td>
<td>18,927</td>
<td>6.45 - 282.00</td>
<td>5/9/02</td>
</tr>
<tr>
<td>Total</td>
<td>2,579,538</td>
<td>$.22 - $282.00</td>
<td>6/25/06</td>
</tr>
</tbody>
</table>

The Class B Offering and Merger Warrants contain provisions providing for termination of the warrant if not exercised following notice of specified per share trading prices.

Stock Option Plans -- The Company has one stock option plan, approved by the Company’s stockholders, currently in effect under which future grants may be issued, the 1996 Stock Option Plan, as amended, for which 2,500,000 shares of Common Stock are reserved. The Company has also granted options under agreements with individuals, and not under any plan. On March 24, 1998 the Company’s stockholders approved options to two executive officers to purchase a total of 148,392 shares of Common Stock at an exercise price of $1.00 per share, which options replaced previously granted options to purchase the same number of shares at an exercise price of $5.42 per share.

Prior to the Merger, the Company had adopted a 1993 Equity Incentive Plan, pursuant to which options for 750 Common Stock shares, giving effect to the Merger and Amendment, were granted and outstanding at June 30, 1999. No new shares can be issued under this Plan.

Pursuant to the Merger, options which had been granted under RhoMed’s four
stock option plans constituted RhoMed Securities which were automatically converted into rights upon exercise to receive Common Stock in the same manner in which the shares of RhoMed common stock were converted.

In October 1995, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123 ("SFAS 123"), "Accounting for Stock-Based Compensation." Effective July 1, 1996, the Company has elected to adopt the disclosures of this pronouncement. Had compensation cost for the Company's stock option plans been determined based upon the fair value at the grant date for awards under SFAS 123, the Company's net loss and basic and diluted net loss attributable to common stockholders per share for the year ended June 30, 1999 would have been $12,873,122 and $2.02 respectively. Net loss and basic and diluted net loss attributable to common stockholders per share for the year ended June 30, 1998 would have been $9,533,412 and $3.04, respectively, while net loss and basic and diluted net loss attributable to common stockholders per share for the year ended June 30, 1997 would have been $5,695,856 and $2.94, respectively. Because the SFAS 123 method of accounting has not been applied to options granted prior to September 1, 1995, the resulting pro forma compensation cost, and thus pro forma net loss, may not be representative of that to be expected in future years. The weighted average fair market value at the date of grant for options granted during 1999, 1998 and 1997 is estimated as $1.29, $2.55 and $2.98 per share, respectively, using the Black-Scholes option-pricing model. The assumptions used in the Black-Scholes model are as follows: dividend yield of 0%, expected volatility of 60%, weighted average risk-free interest rate of 4.66% in 1999, 5.83% in 1998 and 6.60% in 1997, and an expected option life of 7 years.

The status of the plans and individual agreements, including predecessor and replacement plans under which options remain outstanding, giving effect to the Merger and the Amendment, during the four years ended June 30, 1999, was as follows:
<table>
<thead>
<tr>
<th>Number of shares subject to options</th>
<th>Range of prices per share</th>
<th>Weighted average Prices per share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outstanding at August 31, 1995</td>
<td>94,444</td>
<td>$6.51 - $360.00</td>
</tr>
<tr>
<td>Granted</td>
<td>429,463</td>
<td>$.22 - $5.42</td>
</tr>
<tr>
<td>Expired or canceled</td>
<td>(11,554)</td>
<td>$5.42 - $21.70</td>
</tr>
<tr>
<td>Exercised</td>
<td>0</td>
<td></td>
</tr>
<tr>
<td>Outstanding at June 30, 1996</td>
<td>512,353</td>
<td>$.22 - $360.00</td>
</tr>
<tr>
<td>Granted</td>
<td>449,552</td>
<td>$.20 - $8.90</td>
</tr>
<tr>
<td>Expired or canceled</td>
<td>(74,865)</td>
<td>$5.42</td>
</tr>
<tr>
<td>Exercised</td>
<td>(47,918)</td>
<td>$.20</td>
</tr>
<tr>
<td>Outstanding at June 30, 1997</td>
<td>838,122</td>
<td>$.20 - $360.00</td>
</tr>
<tr>
<td>Granted</td>
<td>519,321</td>
<td>$.20 - $7.75</td>
</tr>
<tr>
<td>Expired or canceled</td>
<td>(201,582)</td>
<td>$.20 - $10.85</td>
</tr>
<tr>
<td>Exercised</td>
<td>(5,544)</td>
<td>$.20</td>
</tr>
<tr>
<td>Outstanding at June 30, 1998</td>
<td>1,149,917</td>
<td>$.20 - $360.00</td>
</tr>
<tr>
<td>Granted</td>
<td>896,128</td>
<td>$2.50 - $5.813</td>
</tr>
<tr>
<td>Expired or canceled</td>
<td>(41,697)</td>
<td>$.20 - $6.50</td>
</tr>
<tr>
<td>Exercised</td>
<td>(70,257)</td>
<td>$.22</td>
</tr>
<tr>
<td>Outstanding at June 30, 1999</td>
<td>1,844,091</td>
<td>$.20 - $360.00</td>
</tr>
<tr>
<td>Exercisable at June 30, 1999</td>
<td>696,335</td>
<td>$.20 - $360.00</td>
</tr>
</tbody>
</table>

(12) GRANTS AND CONTRACTS:

The Company applies for and has received grants and contracts under the Small Business Innovative Research ("SBIR") program and other federally funded grant and contract programs. Since inception, approximately $2,970,117 of the Company’s revenues have been derived from federally or state funded grants and contracts. Under federal grants and contracts, there are no royalties or other forms of repayment; however, in certain limited circumstances the government can acquire rights to technology which is not being commercially exploited.

(13) LICENSING FEES AND ROYALTIES:

In December 1996, the Company entered into an Option Agreement with Nihon Medi-Physics ("Nihon"), pursuant to which the Company received, in January 1997, an initial payment of $1,000,000 before Japanese withholding taxes of $100,000 (the "Initial Payment"). The Company has accounted for the Initial Payment by recognizing license fee revenue of $350,000, which represents the non-refundable portion of the Initial Payment, and deferred license fee revenue of $550,000.

The Company recognized $550,000 in license fees as revenue during the quarter ended December 31, 1998 related to its license option agreement with ("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. In May 1997, the Company entered into a License Agreement with The Wistar Institute of Anatomy and Biology ("Wistar") related to the antibody and cell line used for LeuTech for a defined field of use. The agreement includes future payments to Wistar based on milestones. The Company paid $50,000 in license fees during the year ended June 30, 1999, such fee was accounted for as an expense in the statement of operations during the year ended June 30, 1999.

On March 18, 1998, the Company entered into a License and Development Agreement with TheraTech, Inc. ("TheraTech") pursuant to which the Company paid, in July 1998, $500,000 to TheraTech as a license fee. Such license fee was accounted for as an expense in the statement of operations during the year ended June 30, 1998. The development agreement includes additional payments to TheraTech related to the joint effort under the product development program.

On March 31, 1998, the Company entered into a License Agreement with Competitive Technologies, Inc. ("CTI") pursuant to which the Company paid, in July 1998, $50,000 to CTI as a license fee. Such license fee was accounted for as an expense in the statement of operations during the year ended June 30, 1998. The agreement includes future payments to CTI in subsequent years based on certain factors. The Company paid $50,000 in license fees during the year ended June 30, 1999, such fee was accounted for as an expense in the statement of operations during the year ended June 30, 1999.

(14) INCOME TAXES:

The Company has had no income tax expense or benefit since inception because of operating losses. Deferred tax assets and liabilities are determined based on the estimated future tax effect of differences between the financial statements and tax reporting basis of assets and liabilities, given the provisions of the tax laws. A valuation allowance for the net deferred tax assets has been recorded at June 30, 1999, based on the weight of evidence that the deferred tax assets exceed the likely reversal of deferred tax liabilities and likely taxable income.

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The Tax Reform Act of 1986 imposes limitations on the use of net operating loss carryforwards if certain stock ownership changes occur. As a result of the change in majority ownership relating to the Castle preferred stock transaction, the Common Stock Offering, the Merger, and the Series A Preferred Stock Offering, the Company most likely will not be able to fully realize the benefit of its net operating loss carryforwards.

(15) SUBSEQUENT EVENTS:

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

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

2. 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;

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

4. 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;

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

6. 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;

7. agreed to the oversight of LeuTech development and marketing
activities by a joint steering committee, comprised of equal numbers
of representatives to be appointed by each of Palatin and
Mallinckrodt;

8. agreed to the potential termination of the agreement by either party
in the event of material breach or nonpayment by the other party and
the expiration of the agreement after the commercial sale of LeuTech
ceases;

9. agreed that if the agreement was validly terminated by Palatin before
its expiration due to a material breach or nonpayment by Mallinckrodt,
then, among other things, all licenses granted to Mallinckrodt will be
terminated, Mallinckrodt will assign to Palatin any interest they may
have in any trademarks used to market LeuTech as well as any
regulatory filings they may have made in connection with LeuTech and
Mallinckrodt will continue to pay Palatin royalty on the sale of any
inventory they may have the right to dispose of; and

10. agreed that if the agreement was validly terminated by Mallinckrodt
before its expiration due to a material breach or nonpayment by
Palatin, then, among other things, all licenses granted to
Mallinckrodt under the terms of the agreement will be considered
exclusive and irrevocable, Palatin shall transfer to Mallinckrodt all
contractual and intellectual property rights necessary for the
production of LeuTech in quantities sufficient to meet Mallinckrodt's
needs, and Mallinckrodt shall continue to pay Palatin royalty on all
sales of LeuTech.
PALATIN TECHNOLOGIES, INC., a corporation organized and existing under the laws of the State of Delaware (the "Corporation"), does hereby certify that, pursuant to the authority conferred on the Board of Directors of the Corporation by the Certificate of Incorporation, as amended to date (the "Certificate of Incorporation"), of the Corporation and in accordance with Section 151 of the General Corporation Law of the State of Delaware, the Board of Directors of the Corporation adopted the following resolution establishing a series of 1,400,000 shares of Preferred Stock of the Corporation designated as "Series C Convertible Preferred Stock":

RESOLVED, that pursuant to the authority conferred on the Board of Directors of this Corporation by the Certificate of Incorporation, a series of Preferred Stock, par value $.01 per share, of the Corporation is hereby established and created, and that the designation and number of shares thereof and the voting and other powers, preferences and relative, participating, optional or other rights of the shares of such series and the qualifications, limitations and restrictions thereof are as follows:

Series C Convertible Preferred Stock

Section 1. Designation, Amount and Par Value. The series of preferred stock shall be designated as Series C Convertible Preferred Stock (the "Preferred Stock") and the number of shares so designated shall be 1,400,000. Each share of Preferred Stock shall have a par value of $.01 per share and shall have a stated value of $18.57 per share (the "Stated Value").

Section 2. Dividends and Certain Distributions.

(a) The holders (the "Holders" and, individually, a "Holder") of Preferred Stock shall not be entitled to receive periodic dividends on the Preferred Stock.

(b) So long as any Preferred Stock shall remain outstanding, neither the Corporation nor any subsidiary thereof shall directly or indirectly pay or declare any dividend or make any distribution (other than a dividend or distribution described in Section 5) upon, nor shall any distribution be made in respect of, any Junior Securities (as defined in Section 6).

Section 3. Voting Rights. Except as otherwise required by law, the Preferred Stock shall have no voting rights.

Section 4. Liquidation. Upon any liquidation, dissolution or winding-up of the Corporation, whether voluntary or involuntary (a "Liquidation"), the Holder shall be entitled to receive out of the assets of the Corporation, whether such assets are capital or surplus, for each share of Preferred Stock, an amount equal to the Stated Value before any distribution or payment shall be made to the Holders of any Junior Securities, and if the assets of the Corporation shall be insufficient to pay in full such amounts, then the entire assets to be distributed to the Holder of the Preferred Stock shall be distributed to such Holder of the Preferred Stock ratably in accordance with the respective amounts that would be payable on such shares if all amounts payable thereon were paid in full. Any Change in Control shall not be deemed to be a Liquidation, except to the extent it is a Change of Control within the meaning of clause (e) of the
Section 5. Conversion.

(a) On or after August 15, 2004, or upon a Change in Control with respect to the Corporation, and in either such case effective upon written notice, described below, by the Holder to the Corporation, the Holder may convert some or all of the shares of Preferred Stock, including any shares of Preferred Stock obtained by the Holder pursuant to Section 5(c), into fully paid and nonassessable shares of the Common Stock on a one-share-for-one-share basis, without payment of funds or other consideration of any kind. The Holder shall effect conversions by surrendering to the Corporation the certificate or certificates representing the shares of Preferred Stock to be converted, together with a completed and duly executed conversion notice in the form attached hereto as Exhibit A (a "Conversion Notice"). Each Conversion Notice shall specify the number of shares of Preferred Stock to be converted and the date on which such conversion is to be effected, which date may not be prior to the date the Holder delivers such Conversion Notice by facsimile to the Corporation (the "Conversion Date"). If no Conversion Date is specified in a Conversion Notice, the Conversion Date shall be the date that the Conversion Notice is deemed delivered pursuant to Section 5(f). Subject to Section 5(b) hereof, each Conversion Notice, once given, shall be irrevocable. If a Holder is converting less than all the shares of the Preferred Stock represented by the certificate or certificates tendered by such Holder, or if a conversion hereunder cannot be effected in full for any reason, the Corporation shall promptly deliver to such Holder (in the manner and within the time set forth in Section 5(b)) a certificate for such number of shares as have not been converted.

(b) Not later than 10 Business Days after any Conversion Date, the Corporation will use its best efforts to deliver to the Holder (i) a certificate or certificates representing the number of shares of Common Stock being acquired upon the conversion of shares of Preferred Stock and (ii) one or more certificates representing the number of shares of Preferred Stock surrendered to the Corporation for conversion that were not requested to be converted; provided, however, that the Corporation shall not be obligated to issue certificates evidencing the shares of Common Stock issuable upon conversion of any shares of Preferred Stock until certificates evidencing such shares of Preferred Stock are either delivered for conversion to the Corporation or any transfer agent for the Preferred Stock or Common Stock, or the Holder of such Preferred Stock notifies the Corporation that such certificates have been lost, stolen or destroyed and provides a bond (or other adequate security) satisfactory to the Corporation to indemnify the Corporation from any loss that may be incurred by it in connection therewith.

(c) So long as the Purchase Agreement is in effect with respect to any portion of the Territory (as defined in the Purchase Agreement), in the event at any time a Dilutive Event (as defined in Section 6) results in a decrease in the percentage of outstanding Common Stock then owned by the Holder (assuming full conversion of the Preferred Stock) (the "Holder Ownership"), then the Holder shall have the right, exercisable as provided below, (i) if, at the time of the occurrence of the Dilutive Event, the Preferred Stock is not then convertible, to receive that number of shares of Preferred Stock which, when converted along with all other shares of Preferred Stock and combined with all other shares of Common Stock then owned by the Holder, would be required to preserve the Holder Ownership at the same percentage immediately before and after the Dilutive Event or (ii) if, at the time of the occurrence of the Dilutive Event, the Preferred
Stock is then convertible, to receive that number of shares of Common Stock which, when combined with all other shares of Common Stock owned by the Holder (including Common Stock underlying any Preferred Stock then owned by the Holder), would be required to preserve the Holder Ownership at the same percentage immediately before and after the Dilutive Event. The foregoing right shall be exercisable by payment to the Corporation of the purchase price and delivery to the Corporation of the Purchase Notice (defined below). The purchase price per share of Preferred Stock or Common Stock, as the case may be, to be paid by the Holder upon exercise of the foregoing right shall be equal to the consideration per share (if any) paid or to be paid by the person to whom securities are being issued in connection with the Dilutive Event. If the consideration paid by any such third party for such securities is other than cash, such consideration shall be presumed to be cash equal to the fair market value of such consideration as determined by an independent party acceptable to both the Holder and the Corporation. The cost of making such determination, if any, shall be borne by the Corporation. The Corporation shall provide written notice to the Holder of a Dilutive Event within five (5) days after the issuance of any securities giving rise to such Dilutive Event, and the Holder shall make its election to purchase all or any portion of the securities which it is entitled to purchase or receive in accordance herewith to preserve its percentage interest in the Common Stock by written notice to the Corporation (the "Purchase Notice") no more than thirty (30) days following its receipt of the Corporation's written notice of such Dilutive Event. Upon the Holder's failure timely to return the Purchase Notice to the Corporation, the Holder shall be deemed to have waived its right to purchase or receive any additional securities of the Corporation on such occasion. Upon the Holder's timely return to the Corporation of the Purchase Notice, the Holder shall pay to the Corporation the purchase price (if any) for the securities it so elects to purchase or receive within thirty (30) days subsequent to its notice of election to purchase or receive additional securities. Any failure by the Holder on any occasion to purchase or receive all or some of the securities which it is entitled to purchase or receive pursuant to this Section 5(c) as a consequence of the occurrence of a single Dilutive Event shall not affect the right of the Holder, on the subsequent occurrence of any different Dilutive Event, to purchase or receive all or any portion of the securities which it is then entitled to purchase or receive as a consequence of the operation of this Section 5(c).

(d) In determining the amount of consideration paid to the Corporation for the issuance of Common Stock upon the exercise or conversion of exercisable or convertible securities, all amounts paid to the Corporation in consideration for the issuance of the convertible or exercisable securities shall be included as part of the consideration to be paid by the Holder pursuant to this Section.

(e) The provisions of the foregoing Section 5(c) shall not apply with respect to the issuance of Common Stock in connection with, or upon the exercise or conversion of securities issued in connection with, the following transactions:

(i) exercise of rights or options granted or which may be granted under a stock option or other plan for the benefit of employees, directors and/or consultants;

(ii) exercise of rights, warrants or options outstanding on the date hereof;

(iii) conversion of any shares of outstanding Preferred Stock, or any
additional shares of Preferred Stock issued pursuant to Section 5(c) hereof;

(iv) after such time as the Holder first becomes eligible to convert
any of the Preferred Stock in accordance with Section 5(c) above, upon the
issuance and sale of any shares of Common Stock, including the issuance of
Common Stock upon exercise of convertible or exercisable securities, sold
in a firm commitment underwritten public offering, including, without
 limitation, shares sold upon the exercise of any overall allotment option
granted to the underwriters in connection with such offering; and

(v) issuance of Common Stock pursuant to antidilution or price
protection provisions contained in existing employment agreements and the
issuance of Common Stock pursuant to antidilution provisions described in
the certificate of designations with respect the Corporation's Series A
Convertible Preferred Stock.

(f) Any notice or other communication or delivery required or permitted to
be provided hereunder shall be in writing and shall be deemed to have been
received on the earliest of (i) the date of transmission or hand delivery, if
such notice or communication is delivered to the address or to the facsimile
telephone number of the addressee prior to 6:00 p.m. (Eastern Standard or
Daylight time) on a Business Day, (ii) the Business Day after the date of
transmission or hand delivery, if such notice or communication is delivered to
the address or to the facsimile telephone number of the addressee later than
6:00 p.m. (Eastern Standard or Daylight time) on any date and earlier than 11:59
p.m. (Eastern Standard or Daylight time) on such date, (iii) the Business Day
following the date of sending, if sent by nationally recognized overnight
courier service, or (iv) upon actual receipt by the party to whom such notice is
required to be given.

Section 6. Definitions. For the purposes hereof, the following terms shall
have the following meanings:

"Business Day" means any day except Saturday, Sunday and any day which
shall be in New York, New York a day on which banking institutions are closed.

"Change in Control" means the occurrence, with respect to the Corporation,
of any one of the following events:

(a) any "person" as such term is defined in Section 3(a)(9) of the
Exchange Act (and as used in Sections 13(d)(3) and 14(d)(2) of the Exchange
Act) is or becomes a

"beneficial owner" (as defined in Rule 13d-3 under the Exchange Act),
directly or indirectly, of securities of the Corporation representing
greater than fifty percent (50%) of the combined voting power of the
Corporation's then outstanding securities eligible to vote for the election
of its board of directors; provided, however, that the event described in
this clause (a) shall not be deemed to be a change in control by virtue of
any of the following acquisitions: (i) by the Corporation or any wholly
owned subsidiary of the Corporation, (ii) by any employee benefit plan
sponsored or maintained by the Corporation or any subsidiary of the
Corporation, (iii) by any underwriter temporarily holding securities
pursuant to an offering of such securities, or (iv) except as provided in
subsection (c) below, in which voting securities of the Corporation are
acquired from the Corporation, if a resolution providing expressly that the

acquisition pursuant to this clause (iv) does not constitute a change in control is approved by a vote of at least a majority of the directors who are directors of the Corporation on and as of the date hereof;

(b) individuals who, on the date hereof, constitute the board of directors of the Corporation cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof, whose election, or nomination for election, by the Corporation’s stockholders was approved by a vote of at least a majority of the directors comprising the current board of directors (either by a specific vote or by approval of the proxy statement of the Corporation in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this subsection (b), considered as though such person were a member of the current board of directors; provided, however, that no individual initially elected or nominated as a director of the Corporation as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the board of directors shall be deemed to be a member of the current board of directors;

(c) a merger, consolidation, share exchange or similar form of corporate reorganization of the Corporation requiring the approval of the Corporation’s stockholders (whether for such transaction or the issuance of securities in the transaction or otherwise); provided, however, that a “Change in Control” shall not be deemed to occur upon a merger, consolidation, share exchange or similar form of corporate reorganization of the Corporation, whether or not stockholder approval is required, so long as (i) the board of directors of any entity surviving or resulting from such reorganization contains at least fifty percent (50%) of the directors who were members of the board of directors of the Corporation immediately prior to such reorganization and (ii) the Chief Executive Officer of any such surviving entity is the same person as the Chief Executive Officer of the Corporation immediately prior to such reorganization;

(d) the direct or indirect sale or other disposition of all, substantially all or any substantial parts of the assets or lines of business of the Corporation, whether or not approval of any such transaction by stockholders is required; provided, however, that the Corporation shall be able to sell or otherwise dispose of non-LeuTech (as defined in the Purchase Agreement) assets or lines of business in a transaction not otherwise qualifying as a “Change in Control” under subsections (a), (b) and (c) set forth immediately above, whether or not approval of such transaction by stockholders is required, and such sale or other disposition shall not constitute a “Change in Control”; or

(e) the stockholders of the Corporation approve a plan of complete liquidation or dissolution of the Corporation.

“Commission” means the Securities and Exchange Commission.

“Common Stock” means the Corporation’s voting common stock, $.01 par value.

“Dilutive Event” shall mean (i) the issuance and sale by the Corporation of any shares of Common Stock (including the issuance of Common Stock upon exercise or conversion of securities exercisable for or convertible into Common Stock) or
(ii) the issuance by the Corporation of any Common Stock or other securities in connection with any stock split, stock dividend or other recapitalization.


"Junior Securities" means the Common Stock and all other equity securities of the Corporation, other than the Corporation's Series A Convertible Preferred Stock and Series B Convertible Preferred Stock (which are senior to the Preferred Stock) or any other security that the Holder consents in writing to be pari passu with the Preferred Stock.

"Person" means a corporation, an association, a partnership, organization, a business, an individual, a government or political subdivision thereof or a governmental agency.

"Purchase Agreement" means the Strategic Collaboration Agreement, dated as of the date hereof, among the Corporation and the original Holder of the Preferred Stock.

"Securities Act" means the Securities Act of 1933, as amended.

IN WITNESS WHEREOF, the Corporation has caused this certificate to be signed on its behalf by Edward J. Quilty, its Chairman and Chief Executive Officer, this 17th day of August, 1999.

The Corporation:

PALATIN TECHNOLOGIES, INC.

By: /s/ Edward J. Quilty

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

EXHIBIT A
NOTICE OF CONVERSION
(To be Executed by the Holder in order to Convert shares of Preferred Stock)

The undersigned hereby elects to convert the number of shares of Series C Convertible Preferred Stock indicated below, into shares of voting Common Stock, $0.01 par value (the "Common Stock"), of Palatin Technologies, Inc. (the "Corporation") according to the conditions of the Certificate of Designations, as of the date written below. If shares are to be issued in the name of a person other than undersigned, the undersigned will pay all transfer taxes payable with respect thereto and is delivering herewith such certificates and opinions as reasonably requested by the Corporation in accordance therewith. No fee will be charged to the Holder for any conversion, except for such transfer taxes, if
any.

Conversion calculations:

Date to Effect Conversion

Number of shares of Preferred Stock to be Converted

Number of shares of Common Stock to be Issued

Signature

Name

Address

EX-4

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EX. 4.4 SERIES C PREFERRED SPECIMEN CERTIFICATE

PREFERRED STOCK                                                  PREFERRED STOCK
- -----------------------        [GRAPHIC OMITTED]         -----------------------
Certificate Number       PALATIN TECHNOLOGIES, INC.       Number of Shares
C0000                                                   000,000
- -----------------------                                  -----------------------
Incorporated Under the Laws of the State of Delaware

TRANSFER IS RESTRICTED - SEE LEGENDS ON REVERSE

SERIES C CONVERTIBLE PREFERRED STOCK
$.01 PAR VALUE

THIS CERTIFIES THAT [Name of Holder] is the record owner of [zero thousand zero hundred] fully paid and non-assessable shares of Series C Convertible Preferred Stock of Palatin Technologies, Inc. transferable on the books of the Corporation by the holder hereof in person or by Attorney upon surrender of this Certificate properly endorsed.

WITNESS the seal of the Corporation and the signatures of its duly authorized officers. Dated ________, ___.

Dated ________, ___.
THE SHARES OF STOCK REPRESENTED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE U.S. SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT") OR ANY OTHER APPLICABLE SECURITIES LAWS, HAVE BEEN ISSUED IN RELIANCE UPON EXEMPTIONS FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS, AND MAY NOT BE OFFERED, SOLD, TRANSFERRED OR OTHERWISE DISPOSED OF EXCEPT PURSUANT TO (1) AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, OR (2) AN OPINION OF COUNSEL, SATISFACTORY TO THE CORPORATION, THAT AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT AND APPLICABLE STATE SECURITIES LAWS IS AVAILABLE.

The Corporation will furnish without charge to each stockholder who so requests the powers, designations, preferences, and relative, participating, optional, or other special rights of each class of stock or series thereof and the qualifications, limitations or restrictions of such preferences and/or rights.

FOR VALUE RECEIVED, (I/we) sell, assign and transfer to ___________________________ ______________________ shares of the Series C Convertible Preferred Stock represented by this Certificate, and appoint ___________________________ to transfer the said Stock on the books of Palatin Technologies, Inc. with full power of substitution in the premises.

Social Security Number or Employer Identification Number of transferee, if known:

Signed________________ Dated ____________

Signed________________ Dated ____________

NOTICE: THE SIGNATURE(S) ON THIS ASSIGNMENT MUST CORRESPOND WITH THE NAME(S) WRITTEN UPON THE FACE OF THE CERTIFICATE, IN EVERY PARTICULAR, WITHOUT ALTERATION OR ENLARGEMENT, OR ANY CHANGE WHATSOEVER.

EX-10
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EX. 10.9 EDWARD J. QUILTY EMPLOYMENT AGREEMENT

EMPLOYMENT AGREEMENT

THIS EMPLOYMENT AGREEMENT (the "Agreement"), made this 9th day of July,
1999, is entered into by Palatin Technologies, Inc., a Delaware corporation with its principal place of business at 214 Carnegie Center, Suite 100, Princeton, New Jersey 08540 (the "Company"), and Edward J. Quilty, residing at 1031 Creamery Road, Newtown, Pennsylvania 18940 (the "Employee").

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

1. Term of Employment. The Company hereby agrees to employ the Employee, and the Employee hereby accepts employment with the Company, upon the terms set forth in this Agreement, for the period commencing on August 1, 1999 (the "Commencement Date") and ending on July 31, 2002 (such period, as it may be extended, the "Employment Period"), unless sooner terminated in accordance with the provisions of Section 4.

2. Title; Capacity.

2.1 The Employee shall serve as Chairman of the Board and Chief Executive Officer of the Company with powers and duties as may be determined, from time to time, by the Company's Board of Directors (the "Board") which powers and duties shall not be inconsistent with the powers and duties customarily performed, undertaken and exercised by persons holding the positions of chairman of the board, president, chief executive officer or equivalents thereof. The Employee shall be based at the Company's headquarters in Princeton, New Jersey.

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

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

3.1 Salary. The Company shall pay the Employee, in equal semi-monthly installments or otherwise in accordance with the Company's standard payroll policies as such policies may exist from time to time, an annual base
salary of $360,643. Such salary shall be subject to review thereafter, as determined by the Company's Compensation Committee and approved by the Board, on an annual basis on June of each year, but the Board shall not decrease the Employee's annual base salary at any such annual review.

3.2 Cash Performance Bonus. The Company shall pay the Employee, in consideration of the Employee's experience in building value via the establishment of strategic alliances and relationships, bonus compensation of up to one year's base salary (which base salary shall not be less than $360,643 per year) in an amount to be decided by the Company's Compensation Committee and approved by the Board, payable annually, no later than March 31 of each year during the Employment Period. Such performance bonus compensation shall be based upon, inter alia, yearly objectives mutually agreed upon by and between the Employee and the Board.

3.3 Stock Options. As additional compensation for services rendered, the Company may from time to time grant to the Employee the right and option to purchase shares of the Company's Common Stock (the "Option"), subject to the vesting schedule and option term set forth in the relevant Option plan documents and the adjustments set forth in subparagraph f hereof, which Option is a nonqualified stock option. The Option is in all respects limited and conditioned as provided hereunder.

(a) Purchase Price. Except as otherwise provided in subparagraph f hereof, the purchase price (the "Option Price") of the shares covered by the Option ("Option Shares") shall be the closing price of the Company's Common Stock on the National Association of Securities Dealers Automated Quotation System (Nasdaq) on the date of the Option grant.

(b) Exercise of Option.

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

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

(c) Method Of Exercising Option.

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

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

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

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

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

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

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

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

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

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

3.4 Fringe-Benefits. The Employee shall be entitled to participate in all bonus and benefit programs that the Company establishes and makes available to its employees, if any, to the extent that the Employee's position, tenure, salary, age, health and other qualifications make him eligible to participate. In addition, during the Employment Period the Corporation shall reimburse the Employee for any premiums, co-payments, deductibles and other expenses incurred by the Employee to maintain the $1,000,000 term life insurance policy issued in 1992, procured by the Employee from New England Life Insurance Company for his benefit and the benefit of his designees. The Employee shall also be entitled to holidays and annual vacation leave in accordance with the
3.5 Reimbursement of Expenses. The Company shall reimburse the Employee for all reasonable travel, entertainment and other expenses incurred or paid by the Employee in connection with, or related to, the performance of his duties, responsibilities or services under this Agreement, upon presentation by the Employee of documentation, expense statements, vouchers and/or such other supporting information as the Company may request, provided, however, that the amount available for such travel, entertainment and other expenses may be fixed in advance by the Board.

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

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

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

4.2 At the election of the Company, for Cause (as defined in Section 7), immediately upon written notice by the

Company to the Employee, which notice of termination shall have been approved by a majority of the Board;

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

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

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

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

5. Effect of Termination.

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

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

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

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

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

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

(ii) an amount equal to the greater of the aggregate base salary payments which the Employee would have received for a six-month period after the Date of Termination if such termination had not occurred, or $180,321.50, and

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

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

(a) the Company shall pay to the Employee

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

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

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

(i) the greatest of (x) the aggregate Salary payments which the Employee would have received during the balance of the Term if such termination had not occurred, (y) in the case of a Change in Control, the aggregate Salary payments which the Employee would have received during the

balance of the Term based on the Employee’s annual base salary in effect immediately prior to the Change in Control, or (z) an amount equal to the Employee’s highest annual base salary achieved while employed by the Company, plus

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

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

(d) for a one-year period after the Date of Termination, the Company shall arrange to provide the Employee with life, disability, dental, accident, travel and group health insurance benefits
substantially similar to those which the Employee was receiving immediately prior to

the Notice of Termination. Notwithstanding the foregoing, the Company shall not provide any benefit otherwise receivable by the Employee pursuant to this paragraph (d) if an equivalent benefit is actually received by the Employee during the one-year period following the Date of Termination and any such benefit actually received by the Employee shall be reported to the Company; and

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

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

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

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

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

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

(a) a good faith finding by the Company of the Employee's willful breach or habitual neglect or failure to perform the material duties which he is required to perform under the terms of this Agreement, materially fails to follow the reasonable directives or policies established by or at the direction of the Board, or conducts himself in a manner materially detrimental to the interests of the Company such that the Company sustains a material loss or injury as a result thereof and such breach or failure of performance is not cured within thirty (30) days of the delivery to the Employee of written notice thereof, which notice of breach or failure of performance shall have been approved by a majority of the Board,
(b) the willful breach by the Employee of Section 8 of this Agreement or any provision of any confidentiality, invention and non-disclosure, non-competition or similar agreement between the Employee and the Company, or

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

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

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

(a) any failure of the shareholders of the Company to elect or re-elect the Employee as a director of the Company;

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

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

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

(e) the failure by the Company to continue to provide the
Employee with benefits substantially similar to those enjoyed by the
Employee under any of the Company’s insurance, medical, health and
accident, or disability plans in which the Employee was participating
as in effect on the Commencement Date, the taking of any action by the
Company which would directly or indirectly materially reduce any of
such benefits, or the failure by the Company to provide the

Employee with the number of paid vacation days to which he is entitled
in accordance with the Company’s normal vacation policy in effect on
the Commencement Date or in accordance with any agreement between the
Employee and the Company existing at that time;

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

7.4 Change in Control:

(a) “Change in Control” shall mean the occurrence of any of the
following events:

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

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

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

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

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

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

(b) Nothing contained in the definition of Change in Control shall limit or restrict the right of the Employee, in his capacity as a member of the Board, from participating any discussions or voting on any matter referred to in said definition at any meeting of the Board.

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

8. Restrictive Covenants.

(a) For the purposes of this Agreement:

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

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

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

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

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

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

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

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

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

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

10. Indemnification. The Company shall indemnify the Employee to the fullest extent permitted by the General Corporation Law of the State of Delaware, as amended from time to time, for all amounts (including, without limitation, judgments, fines, settlement payments, expenses and attorney’s fees) incurred or paid by the Employee in connection with any action, suit, investigation or proceeding arising out of or relating to the performance by the Employee of services for, or acting by the Employee as a director, officer or employee of, the Company or any other person or enterprise at the Company’s request, and shall to the fullest extent permitted by the General Corporation Law of the State of Delaware, as amended from time to time, advance all expenses incurred or paid by the Employee in connection with, and until disposition of any action, suit, investigation or proceeding arising out of or relating to the performance by the Employee of services for, or acting by the Employee as a director, officer or employee of, the Company or any other person or enterprise at the Company’s request.
11. Pronouns. Whenever the context may require, any pronouns used in this Agreement shall include the corresponding masculine, feminine or neuter forms, and the singular forms of nouns and pronouns shall include the plural, and vice versa.

12. Entire Agreement. This Agreement, together with the Confidentiality Agreement, constitutes the entire agreement between the parties and supersedes all prior agreements and understandings, whether written or oral, relating to the subject matter of this Agreement, including a certain employment agreement by and between the Company and the Employee dated as of November 16, 1995, as amended September 27, 1996 (the "September 1996 Amended Agreement"), except that Article SIXTH of the September 1996 Amended Agreement with respect to the granting, vesting and exercise of certain stock options to the Employee shall continue in full force and effect with respect to such options, subject to the provisions in Section 5 herein with respect to the vesting and exercise of options upon termination.

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

14. Governing Law. Except as otherwise provided in Section 10, this Agreement shall be construed, interpreted and enforced in accordance with the laws of New Jersey, without regard to its principles of conflict of laws.

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


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

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

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

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

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

PALATIN TECHNOLOGIES, INC.

By: /s/ James T. O'Brien

Name: 
Title: 

EMPLOYEE

/s/ Edward J. Quilty

Edward J. Quilty

STRATEGIC COLLABORATION AGREEMENT

THIS STRATEGIC COLLABORATION AGREEMENT dated as of August 17, 1999 (the "Agreement") is made by and between PALATIN TECHNOLOGIES, INC., a Delaware corporation ("Palatin") and MALLINCKRODT INC., a Delaware corporation, by and through its unincorporated Medical Imaging division ("Mallinckrodt").

RECITALS

WHEREAS, Palatin has certain intellectual property rights (including, without limitation, certain patents) concerning, and is in the process of developing a proprietary compound called, LeuTech(TM), which is a radiopharmaceutical product useful for imaging infection and inflammation;

WHEREAS, Mallinckrodt is interested in entering into a joint collaboration with Palatin for the development of a commercial product or products from LeuTech(TM) and desires to obtain an exclusive license to market and sell any product or products developed from LeuTech(TM) in all the countries
of the world, excluding those countries and other sovereign territories in Europe, in accordance with the principles set forth herein; and

WHEREAS, Palatin is willing to enter into such a collaboration and to grant Mallinkrodt such a license upon the terms and conditions set forth below.

NOW THEREFORE, in consideration of the premises and of the covenants herein contained, the parties hereto mutually agree as follows:

Article 1

DEFINITIONS OF CERTAIN TERMS

For purposes of this Agreement, the terms defined in this Article shall have the meanings specified below:

1.1 "Adverse Events" shall mean an adverse drug experience as defined in 21 C.F.R.s.314.80 (a).

1.2 "Affiliate" shall mean any corporation or other entity which directly or indirectly controls, is controlled by or is under common control with a party to this Agreement. A corporation or other entity shall be regarded as in control of another corporation or entity if it owns or directly or indirectly controls more than fifty percent (50%) of the voting stock or other ownership interest of the other corporation or entity, or if it possesses, directly or indirectly, the power to direct or cause the direction of the management and policies of the corporation or other entity or the power to elect or appoint fifty percent (50%) or more of the members of the governing body of the corporation or other entity.

1.3 "Annual Development Plan" shall have the meaning ascribed to it in Section 3.1(f) and "Annual Marketing Plan" shall have the meaning ascribed to it in Section 2.2(d).

1.4 "BLA" shall mean a Biologics License Application, or its substantial equivalent, filed with the FDA (as defined below), or, with respect to countries other than the United States, with the governing health or regulatory authority of such country.

1.5 "cGMP" shall mean current Good Manufacturing Practices as determined at any given time by the FDA.

1.6 "Change in Control" shall mean the occurrence, with respect to Palatin, of any one of the following events:

(a) any "person" as such term is defined in Section 3(a)(9) of the Securities Exchange Act of 1934 (and as used in Sections 13(d)(3) and 14(d)(2) of such Act) is or becomes a "beneficial owner" (as defined in Rule 13d-3 under such Act), directly or indirectly, of securities of Palatin representing greater than fifty percent (50%) of the combined voting power of Palatin's then outstanding securities eligible to vote for the election of its board of directors; provided, however, that the event described in this clause (a) shall not be deemed to be a change in control by virtue of any of the following acquisitions: (i) by Palatin or any wholly-owned subsidiary of Palatin, (ii) by any employee benefit plan sponsored or maintained by Palatin or any subsidiary of Palatin, (iii) by any underwriter temporarily holding securities pursuant to an offering of such securities, or (iv) except as provided in subsection 1.6(c) below, in which voting securities of Palatin are acquired from Palatin, if a resolution providing expressly that the acquisition pursuant to this clause (iv) does not constitute a change in control is approved by a vote of at least a majority of the directors who are directors of Palatin.
on and as of the date hereof;

(b) individuals who, on the date hereof, constitute the board of directors of Palatin cease for any reason to constitute at least a majority thereof, provided that any person becoming a director subsequent to the date hereof, whose election, or nomination for election, by Palatin's stockholders was approved by a vote of at least a majority of the directors comprising the current board of directors (either by a specific vote or by approval of the proxy statement of Palatin in which such person is named as a nominee for director, without objection to such nomination) shall be, for purposes of this clause (b), considered as though such person were a member of the current board of directors; provided, however, that no individual initially elected or nominated as a director of Palatin as a result of an actual or threatened election contest with respect to directors or any other actual or threatened solicitation of proxies or consents by or on behalf of any person other than the board of directors shall be deemed to be a member of the current board of directors;

(c) a merger, consolidation, share exchange or similar form of corporate reorganization of Palatin requiring the approval of Palatin's stockholders (whether for such transaction or the issuance of securities in the transaction or otherwise); provided, however, that a "change in control" shall not be deemed to occur upon a merger, consolidation, share exchange or similar form of corporate reorganization of Palatin, whether or not stockholder approval is required, so long as (A) the Board of Directors of any entity surviving or resulting from such reorganization contains at least fifty percent (50%) of the directors who were members of the board of directors of Palatin immediately prior to such reorganization and (B) the Chief Executive Officer of any such surviving entity is the same person as the Chief Executive Officer of Palatin immediately prior to such reorganization;

(d) the direct or indirect sale or other disposition of all, substantially all or any substantial parts of the assets or lines of business of Palatin, whether or not approval of any such transaction by stockholders is required; provided, however, Palatin shall be able to sell or otherwise dispose of non-LeuTech assets or lines of business in a transaction not otherwise qualifying as a "Change of Control" under subsections (a), (b) and (c) of this Section 1.6, whether or not approval of such transaction by stockholders is required, and such sale or other disposition shall not constitute a "Change of Control"; or

(e) the stockholders of Palatin approve a plan of complete liquidation or dissolution of Palatin.

1.7 "Common Shares" shall mean, at any given time, those shares of the Common Stock, owned by Mallinckrodt as a consequence of its exercise of the conversion rights set forth in Section 5.2(c) or Section 5.2(e) below.

1.8 "Common Stock" shall mean the publicly traded, voting common stock of Palatin.

1.9 "Defective Product" shall have the meaning ascribed to it in Section 2.3(k) below.

1.10 "Development Costs" shall mean all external costs and direct internal costs incurred in connection with the development of LeuTech Products for diagnosing and imaging equivocal appendicitis and osteomyelitis for the North American portion (i.e., the United States and Canada) of the Territory during the Development Phase, [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]
1.11 "Development Criteria" shall mean those milestones and actions that Palatin is required to achieve, in the manner and in the time specified, with respect to the development of LeuTech, which milestones and actions are set forth in Section 3.2(a) set forth below.

1.12 "Development Payments" shall mean those payments due by Mallinckrodt to Palatin in accordance with Section 5.7(b) herein below as Mallinckrodt’s share of Development Costs with respect to the development of LeuTech Products for diagnosing and imaging equivocal appendicitis and osteomyelitis for the North American portion of the Territory.

1.13 "Development Phase" shall mean, as to each and every LeuTech Indication, the period of time with respect to any portion of the Territory during which such LeuTech Indication is being developed and such phase will terminate, with respect to any given portion of the Territory, on the later of the date approval for the marketing and sale of such LeuTech Indication as a LeuTech Product is granted by the appropriate regulatory authority in any such portion of the Territory or the date upon which post-approval product development activities required by any government organization are complete.

1.14 "Development Program" shall mean the development program for LeuTech Products for diagnosing and imaging equivocal appendicitis and osteomyelitis for commercial sales in the North American portion of the Territory, as such program will be more fully described in the first Annual Development Plan to be prepared by Palatin and delivered to Mallinckrodt at the first meeting of the Joint Steering Committee in connection herewith, as such program may be amended from time to time by the parties in accordance with this Agreement.

1.15 "Dilutive Event" shall have the meaning ascribed to such term in Section 5.2(e) below.

1.16 "Europe" shall mean Ireland, Northern Ireland, the United Kingdom, Iceland, Norway, Sweden, Finland, Denmark, Portugal, Spain, Gibraltar, France, Monaco, Andorra, Belgium, the Netherlands, Luxembourg, Germany, Poland, Hungary, Romania, Bulgaria, Slovakia, the Czech Republic, Austria, Liechtenstein, Switzerland, Italy, San Marino, the Holy See, Malta, Greece, Serbia, Croatia, Slovenia, Bosnia, Montenegro, Macedonia, Kosovo, Albania, the Russian Republic, the Ukraine, Belarus, Moldova, Latvia, Lithuania and Estonia.

1.17 "FDA" shall mean the United States Food and Drug Administration.

1.18 "First Commercial Sale" shall mean the first sale of any LeuTech Products for use or consumption by the general public in any portion of the Territory, when such sale has been made with the required marketing approval, as appropriate to the portion of the Territory, granted by the governing health or regulatory authority.

1.19 "Indemnitee" shall have the meaning ascribed to such term in Section 8.5 below.

1.20 "Indemnitor" shall have the meaning ascribed to such term in Section 8.5 below.

1.21 "Information" shall have the meaning ascribed to such term in Section 7.1(a) below.

1.22 "Joint Steering Committee" shall have the meaning ascribed to such term in Section 4.1(a) below.

1.23 "Launch Activities" shall mean those activities to be carried out
by Mallinckrodt in connection with the commencement of commercial sales of LeuTech Products in any portion of the Territory, which activities shall generally include those listed on Exhibit B attached hereto.

1.24 "LeuTech(TM)" shall mean and refer to that compound the chemical structure of which is described generally on Exhibit C attached hereto.

1.25 "LeuTech Indication" shall mean any specific imaging and diagnostic use of LeuTech(TM), whether in the process of development or as approved by the appropriate governmental regulatory agency or agencies.

1.26 "LeuTech Products" shall mean each and every commercial product that is or can be developed for sale from LeuTech(TM) and which is used or usable for nuclear imaging of infection or inflammation, and shall specifically and in every instance (unless the context otherwise clearly requires and until such time as the Joint Steering Committee expands the universe of commercial products to be developed hereunder) refer at the very least to LeuTech Indications for equivocal appendicitis and osteomyelitis as developed hereunder for sale as commercial products in the North American portion of the Territory (i.e., all uses of the term "LeuTech Products" herein shall be a reference to developed commercial products usable for diagnosis and imaging of equivocal appendicitis and/or osteomyelitis and appropriate for sale in the North American portion of the Territory).

1.27 "License Payments" shall mean the payments made by Mallinckrodt to Palatin as described in Section 5.1 below in consideration of the license rights granted by Palatin to Mallinckrodt in accordance with Section 2.1 below.

1.28 "Mallinckrodt Indemnitee" shall have the meaning ascribed to such term in Section 5.6(a) below.

1.29 "Marketing Criteria" shall mean those milestones, actions and obligations that, with respect to any given period of time and in any given portion of the Territory, Mallinckrodt is required to achieve and perform, in the manner and time specified, with respect to the sales, marketing and distribution of LeuTech Products, which Marketing Criteria shall be established by the Joint Steering Committee and shall be derived from any Annual Marketing Plan then in effect.

1.30 "Net Sales" shall mean the gross sales prices for LeuTech Products billed to customers (including, without limitation, any distributors or sublicensees) by a party or by its Affiliates less [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2]. Reductions to gross sales may include [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2]. It is further understood that the amount of any adjustments to the gross sales of LeuTech Products described in this Section 1.30 relate solely to the sale of LeuTech Products. Net sales shall in all cases hereunder be expressed in United States dollars regardless of the currency in which any sales transaction is made.

With respect to Net Sales of Product Units where sales of such Product Units have been "bundled" with other products (i.e., if a Product Unit is sold pursuant to an agreement with an independent customer specifying, for a combination of products and/or services, [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.])

1.31 "Quarterly Net Sales Report" shall have the meaning ascribed to such term in Section 2.2(c) below.

1.32 "Palatin Indemnitee" shall have the meaning ascribed to such term in Section 5.6(b) below.
1.33 "Palatin Intellectual Property Rights" shall mean all of those intellectual property rights of Palatin or any of its Affiliates of any nature whatsoever (including, without limitation, the Palatin Patent Rights, as defined herein below) which are used or useful in connection with LeuTech(TM) or LeuTech Products.

1.34 "Palatin Patent Rights" shall mean those patents and applications for patent owned by Palatin or any of its Affiliates or which Palatin or any of its Affiliates has the right to use and which are used or useful in connection with LeuTech(TM) or LeuTech Products, as set forth and described (including the precise nature of Palatin's rights thereto) on Exhibit D attached hereto.

1.35 "Preferred Stock" shall mean the class of non-voting, subordinated preferred stock of Palatin to be issued to Mallinckrodt in accordance herewith and in consideration of the payments by Mallinckrodt set forth in Section 5.2(b) below, which preferred stock shall have those rights and privileges as are fully described in the certificate of designation attached hereto as Exhibit E.

1.36 "Pre-Launch Activities" shall mean the activities to be carried out by Mallinckrodt to prepare for the commencement of commercial sale of LeuTech Products in any portion of the Territory prior to any such activities hereunder that are defined as Launch Activities, which activities shall generally include those listed on Exhibit B attached hereto.

1.37 "Product Direct Cost" shall have the meaning ascribed to such term in Section 2.3(f) below.

1.38 "Product Sample" shall mean Product Units (as defined below) provided to Mallinckrodt by Palatin, at Palatin's Product Direct Cost, for distribution to Mallinckrodt customers. Such Product Samples shall be used solely for marketing purposes and shall be marked "Sample not for Commercial Sale."

1.39 "Product Unit" shall mean one vial (regardless of the strength, concentration or amount of active ingredients contained therein) of any LeuTech Product, including (without limitation) those described on Exhibit F hereto that are usable for the diagnosis and imaging of equivocal appendicitis and osteomyelitis [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2]. Exhibit F shall be amended from time to time by the parties in accordance with this Agreement to reflect the development of additional LeuTech Products based on a LeuTech Indication other than for the diagnosis and imaging of equivocal appendicitis or osteomyelitis.

1.40 "Publishing Party" shall have the meaning ascribed to such term in Section 7.3(a).

1.41 "Reviewing Party" shall have the meaning ascribed to such term in Section 7.3(a).

1.42 "Royalty Payment" shall mean the amount to be paid by Mallinckrodt to Palatin for Net Sales of Product Units, as further described and defined in Section 5.9 below.

1.43 "SEC" shall mean the United States Securities and Exchange
Commission.

1.44 "Suspension Period" shall have the meaning ascribed to such term in Section 5.4(e) below.

1.45 "Territory" shall mean all of the countries of the world (excluding Europe).

1.46 [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

1.47 "Wistar Agreement" shall have the meaning ascribed to such term in Section 9.3(c).

Article 2

MARKETING, SALES AND MANUFACTURING RIGHTS

2.1 Grant of License Rights by Palatin to Mallinckrodt. In consideration of the License Payments provided for herein Palatin hereby grants to Mallinckrodt and its Affiliates the exclusive right and license under the Palatin Intellectual Property to (i) use, market, distribute for sale and sell LeuTech Products in the Territory and (ii) sublicense the rights set forth in clause (i) to any third party for distribution of LeuTech Products, with the prior written consent of Palatin, which consent shall not be unreasonably withheld. Any such sublicensee shall be bound by the terms and conditions of this Agreement (other than any of the provisions of this Agreement relating to the Preferred Stock) as if the sublicensee were Mallinckrodt or its Affiliates, and shall execute a sublicense agreement to that effect. The sublicensee shall not have any rights greater than the rights granted Mallinckrodt under this Agreement and shall not be permitted to sublicense to any other party rights sublicensed from Mallinckrodt. Mallinckrodt agrees to assume full responsibility for any such sublicensee’s performance and shall at all times diligently audit the performance of any such sublicensee. Mallinckrodt shall promptly inform Palatin of any performance difficulties it discovers or reasonably anticipates with respect to any such sublicensee, as well as the actions Mallinckrodt intends to take to alleviate or ameliorate any such difficulties. The license grant set forth in this Section 2.1 shall be deemed to be paid-up and irrevocable for so long as and to the extent this Agreement is in effect, subject only to such limitations as are expressly set forth herein below.

2.2 Mallinckrodt’s Marketing Obligations.

(a) Mallinckrodt agrees (for itself and on behalf of its Affiliates and sublicensees) to exert its best commercial efforts in the sales, marketing and distribution of LeuTech Products, which it shall conclusively be deemed to have done with respect to any particular LeuTech Product and for any particular period if Mallinckrodt (and its Affiliates or sublicensees) meet those Marketing Criteria or other marketing and sales requirements and milestones established by the Joint Steering Committee and based on the marketing details set forth in any applicable Annual Marketing Plan approved in accordance herewith. If Mallinckrodt (and its Affiliates or sublicensees) have properly addressed and promoted the sales, marketing and distribution of applicable LeuTech Products during any particular period in accordance with the requirements of any applicable Annual Marketing Plan, then Mallinckrodt (and its Affiliates or sublicensees) shall be deemed to have met all applicable marketing obligations hereunder, notwithstanding any failure to achieve expected gross revenue levels for one or more LeuTech Products in any particular market if such shortfall is due primarily to the occurrence of market, economic or technical circumstances which are beyond the reasonable control of Mallinckrodt (and its Affiliates or sublicensees). Mallinckrodt and its Affiliates or sublicensees
shall be responsible for the performance of and costs associated with all Launch Activities and Pre-Launch Activities relative to preparation for the sales, marketing and distribution of LeuTech Products, and shall otherwise engage in those marketing activities set forth and described in Exhibit B attached hereto.

(b) In the event it is the determination of the Joint Steering Committee that, with respect to any particular period of time and in any substantial portion of the Territory, Mallinckrodt (and its Affiliates and sublicensees) have failed to meet any applicable Marketing Criteria or other marketing and sales requirements and milestones contained in or developed jointly as a consequence of any applicable Annual Marketing Plan under circumstances that clearly warrant the conclusion that Mallinckrodt (and its Affiliates and sublicensees) have not exerted their best commercial efforts in the sale and marketing of LeuTech Products then, at Palatin's option and upon one hundred twenty (120) days advance written notice to Mallinckrodt specifying in detail the manner in which Mallinckrodt (and its Affiliates and sublicensees) have failed to discharge their marketing obligations under Section 2.2(a) above, Palatin may terminate or declare to be non-exclusive some or all of the license rights granted to Mallinckrodt pursuant to Section 2.1 above; provided that, if Mallinckrodt (and its Affiliates and sublicensees) are able substantially to cure any failure to meet its (or their) obligations under Section 2.2(a) to the reasonable satisfaction of all of the members of the Joint Steering Committee within such one hundred twenty (120) day period, Palatin will not have the right to terminate or alter any of Mallinckrodt's license rights hereunder.

(c) During the term of this Agreement and for any calendar quarter in which Mallinckrodt (or their Affiliates or sublicensees) have made any sales of Product Units, Mallinckrodt shall, within sixty (60) days after the end of each such calendar quarter, furnish to Palatin a written report showing Net Sales of Product Units during such quarter ("Quarterly Net Sales Report") and including the following specific information: (i) total Net Sales of Product Units broken down into such significant geographical regions as may be specified by the Joint Steering Committee, and sufficient documentation to demonstrate the calculation of Net Sales from gross sales revenue and applicable adjustments, (ii) an indication of the source of any gross revenue (i.e., sales to end-user customers, sales to distributors, fees or payments from sublicensees, etc.) and the calculation of the amount of Net Sales deriving from each source, (iii) the exchange rates used in determining Net Sales in United States dollars for any sales outside the United States, (iv) the estimated allocated sales and marketing expense incurred by Mallinckrodt during the period of any such report in each specific Sales Market and in total, and (v) a comparison of sales and marketing results against any Marketing Criteria and Annual Marketing Plan then in effect.

(d) The sales and marketing activities of Mallinckrodt and its Affiliates or sublicensees shall be subject to the review and approval of the Joint Steering Committee. To aid in review by the Joint Steering Committee, Mallinckrodt shall develop an annual sales and marketing plan (an "Annual Marketing Plan") which shall reasonably describe the sales, marketing and distribution activities to be conducted by Mallinckrodt and its Affiliates or sublicensees with regard to LeuTech Products and which shall include, among other things, an annual budget and a specific description of the timing and nature of any resources to be allocated by Mallinckrodt and its Affiliates to the sales, marketing and distribution of LeuTech Products, the commissions to be paid to sales representatives, training programs to be provided for sales representatives, the nature of all advertising and promotional efforts and materials, the proposed quantity and method of distribution of Product Samples, and such other information as the Joint Steering Committee shall reasonably determine to be necessary. Mallinckrodt shall develop and present the first Annual Marketing Plan at the first meeting of the Joint Steering Committee, which initial plan will set forth Mallinckrodt's overall marketing plan and
forecast assumptions in such detail as possible at this point in time. Such initial plan will be refined and amended or supplemented as, when and to the extent the Joint Steering Committee shall determine. Thereafter, the Annual Marketing Plan shall be prepared by Mallinckrodt no later than sixty (60) days prior to the beginning of each calendar or fiscal year in which sales and marketing activities will occur or are expected to occur in accordance herewith. In addition, if Mallinckrodt receives notice from the Joint Steering Committee that government approval to market any LeuTech Products in a portion of the Territory for which such approval was previously unavailable is reasonably expected to occur within one hundred eighty (180) days, then within sixty (60) days after receipt of such notice, Mallinckrodt will supplement any Annual Marketing Plan then in effect to include all required information relative to the sales, marketing and distribution of LeuTech Products in any such portion of the Territory or, if Mallinckrodt's receipt of such notice occurs within six (6) months from the end of any calendar or fiscal year for which any particular Annual Marketing Plan is then in effect, Mallinckrodt will include all such information in the Annual Marketing Plan to be prepared for the succeeding calendar or fiscal year. Notwithstanding the immediately preceding sentence, any changes or supplements to any Annual Marketing Plan shall be subject to review and approval of the Joint Steering Committee.

(e) Mallinckrodt (on its own behalf and on behalf of its Affiliates, sublicensees, contract consultants or other subcontractors) represents and warrants to Palatin as follows:

(i) there is no claim, suit, proceeding or investigation pending or, to the knowledge of Mallinckrodt, threatened against Mallinckrodt or any of its Affiliates, sublicensees, contract manufacturers, consultants or other subcontractors, which might prevent or interfere with Mallinckrodt's performance under this Agreement;

(ii) LeuTech and LeuTech Products marketed and sold hereunder will not be marketed or sold in violation of any applicable federal, state or local law or regulation, or marketed or sold in violation of any agreement (commercial or otherwise), judgment, order or decree to which any of Mallinckrodt or its Affiliates, sublicensees, contract manufacturers, consultants or other subcontractors are parties;

(iii) neither Mallinckrodt nor any of its Affiliates, sublicensees, contract consultants or other subcontractors (nor any employee of any of the foregoing) has been disqualified or debarred by any governmental authority for any purpose;

(iv) neither Mallinckrodt nor any of its contract consultants or other subcontractors (nor to the best of Mallinckrodt's knowledge any employee of any of the foregoing) have been charged with or convicted under federal law for conduct relating to the marketing or sale of any drug product under the Generic Drug Enforcement Act of 1992 or under any other relevant statute, law or regulation;

(v) Mallinckrodt and any of its Affiliates, sublicensees, contract consultants and other subcontractors (and any employee of any of the foregoing) will treat LeuTech Products as an important product in the same manner Mallinckrodt, its Affiliates and sublicensees traditionally market their important products for purposes of Mallinckrodt's pre-marketing, marketing, sales and distribution efforts and expenditures. Mallinckrodt's marketing, sales and distribution efforts regarding LeuTech Products shall place emphasis on all relevant clinical indications of LeuTech (covered by the scope of this Agreement), market segments and appropriate geographical regions
(vi) Mallinckrodt and any of its Affiliates, sublicensees, contract consultants and other subcontractors (and any employee of any of the foregoing) will provide an adequate sales organization and facilities to assure adequate sales representation, representation, prompt handling of inquiries and orders, and attention to customer service requirements for LeuTech Products in support of the activities described herein;

(vii) Mallinckrodt and any of its Affiliates, sublicensees, contract consultants and other subcontractors (and any employee of any of the foregoing) will provide support and assistance in establishing efficient communications between Mallinckrodt and Palatin for shipping information, invoicing, complaints and customer relations information including support of computer communication systems for information flow; and

(viii) Mallinckrodt and any of its Affiliates, sublicensees, contract consultants and other subcontractors (and any employee of any of the foregoing) will provide sales order entry and customer service.

(f) Palatin, through its employees, consultants or other representatives, will have the right, during normal business hours and upon advance arrangements with Mallinckrodt, and no more often than quarterly, to inspect the marketing and sales and other related operations of Mallinckrodt and its Affiliates, sublicensees, contract consultants or other subcontractors to determine whether or not Mallinckrodt is complying in all respects with obligations and performance for which it is responsible hereunder. Palatin shall give reasonable advance notice to Mallinckrodt of any such inspection and Mallinckrodt shall have the right to have a representative present at all such inspections. Palatin warrants that all such inspections and audits shall be carried out in a manner calculated not to unreasonably interfere with the audited party’s conduct of business. Further, Palatin agrees to comply with all of the audited party’s safety and security requirements during any visits to such audited party’s facilities.

2.3 Manufacturing and Supply of the LeuTech Products.

(a) Palatin (either itself or through the efforts of its contract manufacturers, consultants or other subcontractors) shall be responsible for manufacturing Product Units at the required quality and in quantities sufficient for preclinical and clinical development during the Development Phase with respect to any LeuTech Product and in any particular portion of the Territory until the termination or expiration of any such Development Phase. All costs incurred by Palatin in connection with this subsection (a) shall be deemed Development Costs and subject to the provisions of Section 5.7(b) hereof.

(b) Prior to the termination or expiration of any such Development Phase, Palatin (either itself or through the efforts of its contract manufacturers, consultants or other subcontractors) shall be responsible for (i) the design, testing and scale-up of the LeuTech Products manufacturing process, (ii) manufacturing Product Units at the required quality and in quantities sufficient for any further and final development efforts that may be necessary, (iii) providing documentation regarding the manufacture of LeuTech Products needed to secure the relevant governmental approvals to market and sell LeuTech Products in any portion of the Territory, and (iv) arranging for pre-approval and/or routine establishment inspections with respect to its facilities (or those of its contract manufacturers or other subcontractors) that are and will
be manufacturing LeuTech Products. All costs incurred by Palatin in connection with this subsection (b) shall be deemed Development Costs and subject to the provisions of Section 5.7(b) hereof.

(c) Mallinckrodt will submit to Palatin, in writing within sixty (60) days of the date of this Agreement, a non-binding forecast of the anticipated amounts of its orders for finished Product Units of LeuTech for diagnosing and imaging equivocal appendicitis and osteomyelitis Products for sale and distribution in North America during each of the first two years following approval of the marketing and sale of such LeuTech Products by the FDA. After such approval is obtained, Mallinckrodt will submit to Palatin updated and non-binding forecasts on a rolling quarterly basis. Under no circumstances whatsoever shall any forecasts made hereunder be deemed to be an order for the purchase of Product Units of any LeuTech Products, but Mallinckrodt will at all times exercise reasonable care that such forecasts are as accurate as possible under the applicable facts and circumstances.

(d) Subject to the provisions of subsection (f) and (g) of this Section 2.3, upon completion of the Development Phase for a LeuTech Product in any portion of the Territory, and for so long as Mallinckrodt and its Affiliates retain any portion of the license rights granted pursuant to Section 2.1 above with respect to any such portion of the Territory, Palatin (either itself or through the efforts of its contract manufacturers, consultants or other subcontractors) will be responsible for supplying Mallinckrodt and its Affiliates with such commercial quantities of LeuTech Products as Mallinckrodt and its Affiliates shall require to carry out their obligations under Section 2.2 above, including any quantities of pre-launch commercial inventories of LeuTech Products the parties agree should be produced. Mallinckrodt, for its part, agrees to pay Palatin, for each Product Unit delivered to its facilities and accepted by Mallinckrodt in accordance with provisions set forth below in this Section 2.3, an amount equal to the Transfer Price, as determined pursuant to Section 1.46 above.

(e) [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

(f) [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

(g) [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

(h) Although Palatin shall have the right to subcontract any or all of its responsibilities under this Section 2.3 to a contract manufacturer, consultant or other subcontractor, Palatin shall at all times diligently audit the performance of any such subcontractor hereunder and shall promptly inform Mallinckrodt of any performance difficulties it discovers or reasonably anticipates with respect to any such subcontractor, as well as the actions Palatin intends to take to alleviate or ameliorate any such difficulties. Notwithstanding any other provision herein, it is understood that Palatin shall at all times be fully responsible for the performance of any contract manufacturers, consultants or other subcontractors to whom it may delegate any of its responsibilities or performance under this Section 2.3. Upon discovery by Palatin of an actual or anticipatory breach by any of its contract manufacturers or subcontractors of their obligations to produce Product Units and upon their failure, within a reasonably short period (in any event no longer than sixty (60) days), to cure or remove the threat of any such breach, Palatin will commence all necessary steps to identify and qualify an alternate supplier to replace such contract manufacturers or subcontractors and will diligently pursue all approvals necessary to qualify such suppliers and resume production
at appropriate levels and/or in an appropriate manner. In the event that Palatin fails to discharge its obligations pursuant to this subsection (h), Mallinckrodt shall have the right to enforce Palatin’s rights under and pursuant to any contracts Palatin may have with its contract manufacturers or other subcontractors and Palatin shall take all actions necessary and possible to ensure that Mallinckrodt will be able fully to exercise such rights.

(i) If Mallinckrodt at any time cancels a purchase order for Product Units, then Mallinckrodt shall pay to Palatin a cancellation fee equal to one hundred percent (100%) of the Direct Product Cost incurred by Palatin in accordance with such purchase order less such amount of Direct Product Cost with respect to such purchase order that has already been paid by Mallinckrodt to Palatin. Payment of any such cancellation fee shall be made within thirty (30) days of submission of an invoice detailing such Direct Product Costs and providing such support documentation and material as Mallinckrodt may reasonably deem necessary. Any amounts not paid by Mallinckrodt within such thirty (30) day period shall accrue interest at an annual rate of eight percent (8%) on the unpaid balance due until paid.

(j) The manufacture of Product Units by Palatin (or by its contract manufacturers, consultants or other subcontractors) will be accomplished in accordance with all applicable laws, rules and regulations and all manufacturing shall be performed in accordance with current Good Manufacturing Practices (“cGMP”) as defined by the FDA.

(k) At the time of delivery of Product Units, Palatin shall supply to Mallinckrodt a certificate of analysis for such Product Units setting forth an analysis of the Product Units in question as to each applicable specification. If Mallinckrodt determines that any Product Units it has received are not in conformance with any one or more applicable specifications for Product Units to be supplied by Palatin to Mallinckrodt (hereinafter referred to as a “Defective Product”), then Mallinckrodt may reject any such Defective Product within thirty (30) days of delivery of such Product. At the time of any such rejection, Mallinckrodt shall provide Palatin with a written notice describing in detail the circumstances surrounding the rejection and Mallinckrodt’s reasons therefor. If Mallinckrodt rejects any such Defective Product it will, at Palatin’s option, return the Product Units in question to Palatin (or to any contract manufacturer or other subcontractor Palatin shall specify), or destroy or dispose of them in the least expensive and most environmentally sound manner, or hold them in quarantine at a Mallinckrodt facility, all at Palatin’s cost (subject to any other relevant provisions of this subsection (k)). If Mallinckrodt rejects any Defective Product, then Palatin reserves the right to retest or reexamine such Defective Product for conformity with specifications by an independent laboratory or other consultant mutually agreed upon by both parties. If such testing or reexamination confirms that the Product Units meet the applicable specifications, Mallinckrodt must accept the Product Units, Mallinckrodt must pay any charges and expenses for retesting or reexamination by such third party, and any costs associated with Mallinckrodt’s previous rejection of any such Product Units will be for the account and expense of Mallinckrodt. Otherwise, the charges for retesting, reexamination, return, destruction and/or quarantine will be paid by Palatin, and, whether or not Palatin opts to retest or reexamine Product that has been rejected by Mallinckrodt, Palatin will replace all Defective Product at no cost to Mallinckrodt.

(l) Palatin (and its contract manufacturers, consultants and other subcontractors) will comply with all federal, state and local laws, regulations and standards applicable to production of LeuTech Products and the performance of any obligations for which Palatin is responsible hereunder. Palatin will promptly furnish Mallinckrodt with pertinent portions of all FDA inspection reports and related correspondence directly related to and affecting
performance hereunder (including all such reports and correspondence relating to its contract manufacturers, consultants or other subcontractors) as and when such reports and correspondence become available to Palatin. Palatin will notify Mallinckrodt promptly of (i) any warning (including any FDA Form 483 or warning letter), citation, indictment, claim, lawsuit or proceeding issued or instituted by any federal, state or local governmental entity or agency against Palatin or any of its Affiliates, contract manufacturers, consultants or other subcontractors, (ii) any revocation of any license or permit issued to Palatin or any of its Affiliates, contract manufacturers, consultants or other subcontractors, to the extent that any such occurrence described in clause (i) or (ii) relates directly to performance for which Palatin is responsible hereunder.

(m) Palatin (on its own behalf and on behalf of its contract manufacturers, consultants or other subcontractors) represents and warrants to Mallinckrodt as follows:

(i) All Product Units supplied to Mallinckrodt and its Affiliates hereunder will be properly and safely packaged as reasonably required by the applicable BLA. Palatin will be responsible to provide all vials, boxes and other packaging materials required by Palatin to perform its obligations hereunder (i.e., these are included in the Transfer Price to be paid by Mallinckrodt).

(ii) Palatin currently has access to, and during the entire term hereof will make all reasonable efforts to ensure that it will continue to have access to, sufficient supplies of raw materials, utilities, container/closure systems, packaging materials and all other required items to perform the services required of it hereunder without interruption.

(iii) Palatin shall be responsible (through the efforts of its contract manufacturers, consultants and other subcontractors) for all process, cleaning and methods validation, stability studies or other tests and procedures necessary for the manufacture and release of finished Product Units hereunder in accordance with cGMP and in accordance with the requirements of the relevant manufacturing process. Complete and accurate documentation of all validation data, stability testing data, batch records, quality control and laboratory testing and any other data required under cGMP or other FDA requirements, or under any similar requirements of the relevant regulatory framework of any other country (as such requirements may be applicable), in connection with the supply of finished Product Units hereunder shall be maintained, and such records shall be available for review by Mallinckrodt on reasonable advance notice.

(iv) All Product Units produced and sold hereunder will be produced in compliance with cGMPs applicable to LeuTech Products, and will meet all applicable specifications.

(v) There is no claim, suit, proceeding or investigation pending or, to the knowledge of Palatin, threatened against Palatin or any of its Affiliates, sublicensees, contract manufacturers, consultants or other subcontractors, which might prevent or interfere with Palatin's performance under this Agreement.

(vi) Neither Palatin nor any of its Affiliates, sublicensees, contract manufacturers, consultants or other subcontractors (nor to the knowledge of Palatin any employee of any of the foregoing) has been disqualified or debarred by the FDA for any purpose.
(vii) Neither Palatin nor any of its Affiliates, sublicensees, contract manufacturers, consultants or other subcontractors (nor to Palatin's knowledge any employee of any of the foregoing) have been charged with or convicted under federal law for conduct relating to the development or approval, or otherwise relating to the regulation of any drug product under the Generic Drug Enforcement Act of 1992 or under any other relevant statute, law or regulation.

(viii) Product Units sold hereunder will not be:

(A) in violation of Sections 5 or 12 of the Federal Trade Commission Act or improperly labeled under applicable Federal Trade Commission Trade Practice Rules, as and to the extent applicable hereunder,

(B) adulterated or misbranded within the meaning of the federal Food, Drug and Cosmetic Act, as amended, or within the meaning of any applicable state or municipal law in which the definitions of adulteration and misbranding are substantially identical with those contained in the federal Food, Drug and Cosmetic Act, or articles which may not under the provisions of Sections 404 or 505 of said Act be introduced into interstate commerce or which may not under substantially similar provisions of any state or municipal law be introduced into commerce,

(C) in violation of Section 351 of the Public Health Service Act, as amended, as and to the extent applicable hereunder,

(D) manufactured in violation of any applicable federal, state or local law, rule or regulation, or

(E) manufactured in violation of any agreement (commercial or otherwise), judgment, order or decree to which any of Palatin or its contract manufacturers, consultants or other subcontractors are parties.

(n) Mallinckrodt, through its employees, consultants or other representatives, will have the right, during normal business hours and upon advance arrangement with Palatin, and no more often than quarterly, to inspect the manufacturing and other related operations of Palatin and its contract manufacturers, consultants or other subcontractors to determine whether or not Palatin is complying in all respects with obligations and performance for which it is responsible hereunder. Mallinckrodt shall give reasonable advance notice to Palatin of any such inspection and Palatin shall have the right to have a representative present at all such inspections. Mallinckrodt warrants that all such inspections and audits shall be carried out in a manner calculated not to
unreasonably interfere with the audited party’s conduct of business. Further, Mallinckrodt agrees to comply with all of the audited party’s safety and security requirements during any visits to such audited party’s facilities.

(o) If either party reasonably decides to or is required to initiate a product recall, stock recovery, withdrawal or field correction with respect to, or if there is any governmental seizure of, any Product Units supplied hereunder which action is due, in whole or in part, to (i) a failure of any of such Product Units manufactured hereunder to conform to applicable specifications (including, without limitation, any such Product Units being adulterated or misbranded), or any warranty or other requirement set forth in this Agreement, (ii) the failure of either party (or any of their contract manufacturers, consultants, subcontractors or sublicensees) to comply with any applicable law, rule, regulation, standard, court order or decree or (iii) the negligent or intentional wrongful act or omission of either party (or any of their contract manufacturers, consultants, subcontractors or sublicensees) in connection with performance hereunder, such party will notify the other party promptly of the details regarding such action, including providing copies of all relevant documentation concerning such action. The party so notified will assist the party initiating any such action in investigating any such situation. All regulatory contacts that are made and all activities concerning seizure, recall, stock recovery, withdrawal or field correction will be jointly coordinated by Mallinckrodt and Palatin, regardless of which party initiated or suffered any applicable action. If any such recall, stock recovery, withdrawal, field correction or seizure occurs due solely to (i) a failure of any Product Units provided hereunder to conform to applicable specifications (including, without limitation, any such Product Units being adulterated or misbranded) or any warranty or other requirement set forth in this Agreement, (ii) the failure by Palatin (or any of their contract manufacturers, consultants, subcontractors or sublicensees) to comply with any applicable law, rule, regulations, standard, court order or decree or (iii) the negligent or intentional wrongful act or omission of Palatin (or any of its contract manufacturers, consultants, subcontractors or sublicensees) in connection with the production of LeuTech Products hereunder, then Palatin shall bear the full cost and expense of any such seizure, recall, stock recovery, withdrawal or field correction and, to the extent Mallinckrodt has paid any expenses, it shall be entitled to reimbursement by deduction of such costs and expenses from the amount of any Royalty Payment otherwise payable to Palatin hereunder in accordance with Section 5.9, such deduction to occur with respect to the Royalty Payment payable for the calendar quarter in which any such recall, stock recovery, withdrawal, field correction or seizure occurs. If both Palatin and Mallinckrodt (or either of their subcontractors, sublicensees or Affiliates) contribute to the cause of a seizure, recall, stock recovery, withdrawal or field correction, the cost and expenses thereof will be shared in proportion to each party’s contribution to the problem (as determined by the Joint Steering Committee or, in the absence of a decision by the Joint Steering Committee, in accordance with the procedures set forth in Section 10.6 herein), and any amount of cost and expense that is the liability and responsibility of Palatin and is paid by Mallinckrodt shall be reimbursed to Mallinckrodt by deduction from any Royalty Payment due Palatin in accordance with the procedures set forth in the immediately preceding sentence. If any recall, stock recovery, withdrawal, field correction or seizure occurs due solely to the failure of Mallinckrodt, its Affiliates, sublicensees, contract consultants or other subcontractors to comply with any applicable law, rule, regulation, standard, court order or decree or the negligent or intentional wrongful act or omission of Mallinckrodt in connection with performance hereunder, then Mallinckrodt shall bear the full cost and expense of such seizure, stock recovery, withdrawal or field correction.

(p) Mallinckrodt shall be responsible for monitoring, investigating and reporting all customer complaints and Adverse Events concerning the LeuTech Products. Palatin shall perform in a timely manner all
product testing in connection with such customer complaints and Adverse Events as requested by Mallinckrodt. Mallinckrodt shall prepare and submit in full compliance with applicable federal statutes and regulations the Annual Adverse Event Report required to be submitted to the FDA and to prepare and submit within the Territory in full compliance with applicable law all other required regulatory filings relating to customer complaints and Adverse Events.

(q) In addition to any rights Mallinckrodt may otherwise have hereunder (including, without limitation, any rights to terminate this Agreement pursuant to Section 9.2 below), in the event Palatin is in material breach of any obligations under this Section 2.3 for which it is responsible and which material breach places Mallinckrodt in reasonable and imminent apprehension of Palatin's continued ability or intention to supply Product Units of LeuTech Products to Mallinckrodt hereunder, if such breach is caused by the acts or omissions to act of Palatin, and such breach is not cured within one hundred twenty (120) days after notice thereof is given by Mallinckrodt to Palatin, then Mallinckrodt shall have the irrevocable right to manufacture or have manufactured by any one or more contract manufacturers all of its requirements for Product Units of LeuTech Products for the duration of any of its license rights granted hereunder. Mallinckrodt may exercise the foregoing right by giving notice to Palatin of its intent to do so at any time after the lapse of the one hundred twenty (120) day cure period if, during such time, Palatin has been unable substantially to cure any and all material breaches of this Section 2.3 to the reasonable satisfaction of Mallinckrodt. In the event Mallinckrodt exercises such right of manufacture, Palatin shall, as soon after notice of the exercise of such right as possible (but in no event later than six (6) months thereafter), transfer to Mallinckrodt such contractual rights (i.e., its contracts with all third party contract manufacturers, consultants and other subcontractors) and such rights to its intellectual property and such know-how as may be necessary to enable Mallinckrodt or a third party or parties designated by Mallinckrodt to manufacture LeuTech Products in sufficient quantity to meet Mallinckrodt's requirements therefor. Any repeated failure by Palatin to supply the full amount of any Product Units ordered by Mallinckrodt in accordance with the provisions hereof as and when such Products are to be delivered in accordance with any accepted purchase order shall be deemed a material breach for purposes hereof.

(r) Upon the written request of Mallinckrodt, Palatin shall permit an independent public accountant selected by Mallinckrodt and acceptable to Palatin, which acceptance shall not be unreasonably withheld or delayed, to have access during normal business hours to such records of Palatin as may be reasonably necessary to verify (i) the accuracy of any changes in Transfer Price made by Palatin pursuant to Section 1.46 in respect of any calendar year (or portion thereof) ending not more than twelve (12) months prior to the date of such request and (ii) the accuracy of any billings (and all credits, refunds and similar adjustments thereto) by Palatin to Mallinckrodt pursuant to Section 2.3(f) for the payment by Mallinckrodt of its portion of Product Direct Cost applicable to any purchase order for Product Units made and accepted hereunder. Subject to other relevant provisions of this subsection (r), all such verifications shall be conducted at Mallinckrodt's expense, not more than twice in each calendar year and no quarterly period may be audited more than once. In the event such Mallinckrodt representative concludes (i) that changes in the Transfer Price were not made in accordance with the requirements of Section 1.46 or (ii) that the amount of Product Direct Cost (and all credits, refunds or similar adjustments thereto) owed by or accruing to the benefit of Mallinckrodt were not correctly stated and therefore, if either or both of clause (i) or (ii) of this sentence is true and in such representative's determination the aggregate amount of the Transfer Price charged to Mallinckrodt by Palatin for Product Units during the audited period is greater than the aggregate Transfer Price that should have been charged, then, at the option of Mallinckrodt, either (x) Palatin will refund the applicable amount to Mallinckrodt or (y)
Mallinckrodt may offset any amount due against amounts otherwise due by Mallinckrodt to Palatin hereunder pursuant to Section 2.3(f), Section 2.3(g) or Section 5.8(a), in any case such amount to include interest at the annual rate of eight percent (8%) on any amounts due Mallinckrodt, measured from the date on which such payment should have been made. In the event that, if either or both of clause (i) or (ii) of the immediately preceding sentence is true, such Mallinckrodt representative concludes that the amount of the aggregate Transfer Price charged to Mallinckrodt by Palatin for Product Units during the audited period is less than the aggregate Transfer Price that should have been charged, then Mallinckrodt will pay the additional amount to Palatin, plus accrued interest at the annual rate of eight percent (8%) on any amounts due Palatin measured from the date on which such payment should have been made. Any amounts due pursuant to this subsection (r) shall be paid (unless amounts are owed to Mallinckrodt and it notifies Palatin of its decision to be paid by way of offset) by the party owing such payment within fifteen (15) days of the date Mallinckrodt delivers to Palatin such representative’s written report concerning any Transfer Price audit period, unless (in the event any such report reveals a Transfer Price overcharge by Palatin) Palatin shall have a good faith dispute as to the conclusions set forth in such written report, in which case Palatin shall provide written notice to Mallinckrodt within such fifteen (15) day period of the nature of its disagreement with such written report and, if such written notice has been given, Palatin may withhold payment of the disputed portion of any such amount due and Mallinckrodt shall not be entitled to exercise any right of offset with respect to any disputed amount. If Palatin has provided written notice to Mallinckrodt that it disputes any of Mallinckrodt’s representative’s conclusions, the parties shall thereafter, for a period of sixty (60) days, attempt in good faith to resolve such dispute and if they are unable to do so then the matter will be submitted for resolution in accordance with Section 10.6. The fees charged by Mallinckrodt’s representative shall be paid by Mallinckrodt unless the audit discloses that any aggregate Transfer Prices paid by Palatin for the audited period were greater by more than five percent (5%) than the amount that should have been charged for the audited period, in which case Palatin shall pay the reasonable fees and expenses charged by such representative. Mallinckrodt agrees that all information subject to review under this subsection (r) is confidential and that it shall cause its representatives to retain all such information in confidence in accordance with the requirements of Article 7 below.

Article 3

PRODUCT DEVELOPMENT

3.1 Conduct of the Development Program and Development Generally.

(a) Palatin will be responsible for performing all remaining tasks associated with the development of LeuTech Products for diagnosing and imaging equivocal appendicitis and osteomyelitis in connection with the Development Program, including without limitation the design and conduct of clinical trials and the preparation and filing of all required regulatory submissions. It is understood that Mallinckrodt’s entire financial responsibility with respect to the development activities comprising the Development Program are the Development Payments to be made by Mallinckrodt to Palatin in accordance with Section 5.7(b). In addition to its performance of certain tasks in conjunction with the Development Program, Palatin will also perform all remaining tasks associated with the development of such LeuTech Products as commercial products fully available for marketing and sale in every portion of the Territory, including without limitation the design and conduct of clinical trials and the preparation and filing of all required regulatory submissions, such development activities to be conducted subject to the review and approval of the Joint Steering Committee and at the joint expense of Mallinckrodt and Palatin, as the Joint Steering Committee shall determine (in
Mallinckrodt’s case and for the avoidance of doubt, any such expense to be additional to the Development Payments to be made in accordance with Section 5.7(b). When available and subject to the Joint Steering Committee, Palatin may use the resources of Mallinckrodt or its Affiliates to conduct the development activities described in the preceding sentence or, subject to the concurrence of the Joint Steering Committee, Palatin may utilize the services of contract research organizations for development activities. In addition, the nature and scope of all future development activities relative to LeuTech Products that may be developed outside the Development Program will be determined by Mallinckrodt and Palatin and any such development activities will be conducted subject to the review and approval of the Joint Steering Committee and at the joint expense of Mallinckrodt and Palatin, as the Joint Steering Committee shall determine.

(b) Notwithstanding the responsibility of Palatin with respect to the Development Program as described in the first sentence of subsection (a) set forth immediately above, the development of LeuTech Products generally by Palatin during the term hereof shall be subject to review and approval by the Joint Steering Committee established hereunder. The Joint Steering Committee will work on a regular basis with individuals designated by Palatin to coordinate the Development Program and any future development of other LeuTech Products. In the course of development of LeuTech Products, Palatin will provide Mallinckrodt’s representatives on the Joint Steering Committee (or any individuals whom such representatives shall designate) with reasonable prior notice of all meetings or conferences between Palatin’s representatives (including any contract research organizations, contract manufacturers, consultants and other subcontractors) and any regulatory authorities that are concerned with the securing of approval for the marketing and sale of LeuTech Products as commercial products and will give Mallinckrodt the right to have a representative attend all such meetings and conferences.

(c) At the quarterly meeting of the Joint Steering Committee, during any Development Phase with respect to any portion of the Territory (including with respect to the Development Program), Palatin shall provide Mallinckrodt with reasonably detailed reports which shall describe Palatin’s progress with respect to its development efforts under this Agreement (including a comparison of development efforts and progress with the requirements of any Annual Development Plan then in effect), detail any Adverse Events to the LeuTech Products under development and shall provide the available results of all studies and trials conducted by or under the supervision of Palatin with respect to LeuTech Products. In addition, at such quarterly meetings and with respect to the Development Program, Palatin shall provide Mallinckrodt with a reasonably detailed report which shall describe Palatin’s progress in achieving its Development Criteria set forth in Section 3.2(a) below and the Development Costs incurred by Palatin during the preceding calendar quarter.

(d) Each party agrees to make its employees and those of its subcontractors and consultants reasonably available at their respective places of employment to consult with the other party on issues arising during the Development Phase with respect to the development of any LeuTech Product and with respect to any portion of the Territory, in connection with any request from any regulatory agency, including all such requests related to regulatory, scientific, technical, clinical testing and marketing issues.

(e) Representatives of Mallinckrodt may, at any time as Mallinckrodt may reasonably request, with the prior approval of Palatin, which approval shall not be unreasonably withheld or delayed, visit the sites of any clinical trials or other experiments being conducted by Palatin or by any of its contract research organizations, consultants or other subcontractors in connection with the Development Program or any future development of LeuTech Products. Palatin shall cause appropriate individuals involved in the Development Program or any future development of LeuTech Products to be
reasonably available for consultation with Mallinckrodt.

(f) The Development Program or any future development of LeuTech Products shall be conducted under and pursuant to an annual development plan (the "Annual Development Plan") which shall reasonably describe the work to be conducted by or under the supervision of Palatin with respect to the development of LeuTech Products. The Annual Development Plan shall contain a budget including, with respect to the Development Program, estimates of the aggregate Development Costs to be incurred during the applicable year. The first Annual Development Plan shall be presented at the first meeting of the Joint Steering Committee. Thereafter, the Annual Development Plan for any given year will be prepared by Palatin and presented to the Joint Steering Committee no later than sixty (60) days prior to the beginning of each calendar or fiscal year. Any Annual Development Plan and any changes to any Annual Development Plan shall be subject to approval by the Joint Steering Committee in accordance with procedures set forth herein and, to the extent any such Annual Development Plan concerns the Development Program, shall be subject to the limitations set forth in Section 5.7(d) hereof.

3.2 Development Criteria for the Development Program.

(a) In consideration of certain payments to be made by Mallinckrodt to Palatin in accordance generally with the provisions of Sections 5.7 herein below, Palatin agrees to employ its best efforts to carry out, in a complete, competent and timely fashion, its obligations to develop LeuTech Products in connection with the Development Program. To ensure that Palatin's development obligations hereunder with respect to the Development Program are fulfilled, Palatin shall be subject to the following Development Criteria, each expressed as a milestone with an associated time requirement:

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If and as circumstances warrant, the Development Criteria set forth immediately above may be amended, but only with the unanimous approval of the Joint Steering Committee; provided that, if Palatin is unable to achieve one or more of the Development Criteria in a timely fashion due to circumstances beyond Palatin's reasonable control, Mallinckrodt's representatives to the Joint Steering Committee will not unreasonably withhold consent to a reasonable extension of time which would allow achievement of the particular milestone(s) in question.

(b) Subject only to the last sentence of subsection (a) set forth immediately above, if Palatin fails to achieve any of the Development Criteria within the time specified, at Mallinckrodt's option and effective immediately upon notice by Mallinckrodt to Palatin, Mallinckrodt may terminate this Agreement in its entirety; provided that, Mallinckrodt shall be responsible to pay to Palatin all amounts then unpaid and due Palatin in accordance herewith through the effective date of such termination. In the event of any such termination by Mallinckrodt, the license rights granted by Palatin to Mallinckrodt pursuant to Section 2.1 above shall immediately terminate and Mallinckrodt shall thereafter have no further rights to Palatin Intellectual Property Rights, LeuTech or LeuTech Products. In addition, in the event of any such termination, Mallinckrodt will have no further responsibilities to perform
any obligation provided for hereunder (except for any such obligations which, by their express terms and purposes, are intended to survive any such termination) and, specifically and without limitation, Mallinckrodt shall have no obligation to pay any portion of any Development Costs relating to any period of time or any activity occurring after the effective date of such termination.

Article 4

MANAGEMENT OF THE COLLABORATION

4.1 Joint Steering Committee.

(a) A steering committee comprised of three (3) named representatives of Mallinckrodt and three (3) named representatives of Palatin (the "Joint Steering Committee") shall be appointed and shall meet as needed, but not less than once each calendar quarter. Such meetings shall be at such times and places and in such form as the members of the Joint Steering Committee shall agree. At such meetings, the Joint Steering Committee will review and approve the Development Program, any Annual Development Plan and any Annual Marketing Plan. A party may change one or more of its representatives to the Joint Steering Committee at any time. Members of the Joint Steering Committee may be represented at any meeting by another member of the Joint Steering Committee, or by an authorized designee. Any approval, determination or other action agreed to by a two-thirds majority of the Joint Steering Committee or their authorized designees present at the relevant Joint Steering Committee meeting shall be the approval, determination or other action of the Joint Steering Committee, provided at least two representatives of each party are present at such meeting.

(b) The Joint Steering Committee shall initially be chaired by a Palatin representative to the Committee. The Palatin representative shall serve as the chair of the Joint Steering Committee through and including June 30, 2001. On July 1, 2001, a Mallinckrodt representative shall become the chair of the Joint Steering Committee through and including June 30, 2003. Thereafter, the chair of the Joint Steering Committee shall rotate between a representative of Palatin and a representative of Mallinckrodt, with each chair serving for two (2) years in succession.

(c) The Joint Steering Committee shall keep accurate minutes of its deliberations which record all proposed decisions and all actions recommended or taken. The chair shall be responsible for the preparation of draft minutes. Draft minutes shall be sent to all members of the Joint Steering Committee within ten (10) working days after each meeting. The draft minutes shall be edited by the chair based on comments from the members of the Joint Steering Committee and shall be distributed to the members prior to the next meeting of the Joint Steering Committee for review and final approval at such meeting. All records of the Joint Steering Committee shall at all times be available to both parties.

(d) The Joint Steering Committee may delegate its authority and oversight responsibility to any one or more subcommittees, each of which shall have an equal number of members from Mallinckrodt and Palatin. The membership of such subcommittees will include at least one member of the Joint Steering Committee appointed by each of Palatin and Mallinckrodt but otherwise the parties are free to appoint such other individuals to serve on any subcommittees as they desire. Any decision on any matter by any subcommittee must be reported to and approved by the Joint Steering Committee and any disputes or disagreements among the members of any subcommittee that cannot be resolved by such members shall be referred to the Joint Steering Committee for resolution.
(e) All disagreements within the Joint Steering Committee as to matters for which the Joint Steering Committee has the final authority to make a decision shall be resolved in accordance with the following procedures:

(i) the representatives to the Joint Steering Committee will negotiate in good faith for a period of not more than sixty (60) days to attempt to resolve the dispute,

(ii) if the representatives to the Joint Steering Committee are unable to resolve the dispute within such sixty (60) day period, then such representatives shall promptly present the disagreement to the Chief Executive Officer of Palatin and the President of Mallinckrodt’s Imaging Group or their respective designees,

(iii) such executives shall meet or discuss in a telephone or video conference each party’s view and explain the basis for such disagreement, and

(iv) if such executives cannot promptly resolve such disagreement within sixty (60) days after such issue has been referred to them, then the matter shall be referred to arbitration in accordance with the procedures set forth in Section 10.6 below.

Article 5

PAYMENTS, PREFERRED STOCK AND COST SHARING

5.1 License Payments. In consideration of the license rights granted by Palatin to Mallinckrodt and its Affiliates in accordance with Section 2.1 herein above, Mallinckrodt hereby agrees to make the following License Payments to Palatin:

(a) Mallinckrodt will pay [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2] on and as of the date of execution of this Agreement,

(b) Mallinckrodt will pay [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2] within fifteen (15) days after the approval by the FDA of a BLA for any LeuTech Product useful for the imaging of appendicitis, and

(c) Mallinckrodt will pay [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2] within thirty (30) days after [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

Remittance of each of the License Payments will be made by wire transfer of immediately available United States funds to an account designated by Palatin to Mallinckrodt at least three (3) business days prior to the date on which any such payment is due.

5.2 Purchase of Palatin Preferred Stock.

(a) In consideration for the performance by Mallinckrodt of its obligations hereunder and the payments to be made by Mallinckrodt as set forth immediately below in Section 5.2(b), Palatin agrees that it will issue to Mallinckrodt, on and as of the date of execution hereof, seven hundred thousand (700,000) shares of the Preferred Stock, which shares of stock will be, when issued, fully paid and nonassessable (except for any amounts payable in accordance with Section 5.2(b) which are not due and payable at the time of such issuance) and not subject to any antidilution rights, preemptive rights, or
rights of first refusal of any kind, except as set forth and described on Exhibit G. The shares of Preferred Stock will have the rights, preferences and limitations set forth on the certificate of designation attached hereto as Exhibit E. Mallinckrodt represents and warrants that at the time it was offered the Preferred Stock to be acquired by it hereunder, it was, and at the date hereof it is, an "accredited investor" as defined in Rule 501(a) under the Securities Act of 1933, as amended ("Securities Act"). Mallinckrodt understands that the shares of Preferred Stock acquired by it hereunder have no public market and are not registered and may not be sold or transferred without registration or unless an appropriate exemption from registration is available under applicable law; therefore, Mallinckrodt understands that it may be required to retain these shares of Preferred Stock and bear the economic risk of such investment indefinitely. Mallinckrodt represents and warrants that it possesses such knowledge, sophistication and experience in financial and business matters as to be able to evaluate the merits and risks of an investment in the Preferred Stock and that it has the economic ability to bear the high degree of risk of such a speculative investment. Mallinckrodt further represents and warrants that it is acquiring the shares of Preferred Stock hereunder for its own account and for investment purposes only, and not with a view to resale or distribution of any kind, except for such resale or distribution as may be consistent with the requirements of applicable law. Mallinckrodt further acknowledges that it has been afforded (i) the opportunity to ask such questions as it has deemed necessary of, and to receive answers from, representatives of Palatin concerning the terms and conditions of the offering of the Preferred Stock, and the merits and risks of investing in the Preferred Stock, (ii) access to information about Palatin and Palatin's financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment, and (iii) the opportunity to obtain such additional information which Palatin possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to such investment.

(b) In consideration for the issuance by Palatin of seven hundred thousand (700,000) shares of the Preferred Stock to Mallinckrodt, Mallinckrodt will pay to Palatin Thirteen Million Dollars ($13,000,000). The amount to be repaid by Palatin to Mallinckrodt in accordance with Section 5.8(b) below may be offset against the foregoing purchase price but will not reduce the deemed actual purchase price for the Preferred Stock. The amount set forth in the immediately preceding sentence shall be paid on the date of execution hereof by wire transfer of immediately available United States funds to an account designated by Palatin to Mallinckrodt.

(c) It is understood that, at any time and from time to time on or after the fifth (5th) anniversary hereof or, if sooner, at any time upon the occurrence of a Change of Control with respect to Palatin, and in either such case effective upon written notice by Mallinckrodt to Palatin, Mallinckrodt may convert some or all of the shares of Preferred Stock purchased hereunder into fully paid and nonassessable shares of the Common Stock on a one-share-for-one-share basis, without payment of funds or other consideration of any kind. Any shares so converted (i.e., Common Shares) may be unregistered and, therefore, subject to such restrictions on transfer as may exist under applicable law and the rules and regulations of the SEC and of any exchange or association on which such securities may be listed or traded. If and to the extent, subsequent to conversion of any of the shares of Preferred Stock being purchased hereunder, any of the Common Shares owned and held by Mallinckrodt are unregistered, Mallinckrodt may have to continue to bear the economic risk of its investment hereunder for an indefinite period of time, unless and to the extent the Common Shares are registered, unless an appropriate exemption from registration is available under applicable law, or until Mallinckrodt exercises its rights under Sections 5.3 and/or 5.4 below. It is understood that the 700,000 shares of Preferred Stock being acquired by Mallinckrodt hereunder, if
it was fully converted on and as of the date hereof into shares of the Common Stock, represents an eight percent (8%) interest in the voting capital stock of Palatin.

(d) For so long as Mallinckrodt has at least a two percent (2%) ownership interest of the Common Stock of Palatin (whether through direct ownership of Common Stock or ownership of securities exercisable for or convertible into Common Stock), Palatin covenants that it will furnish to Mallinckrodt, promptly upon filing, copies as filed with the SEC or any other similar regulatory authority of (A) Palatin’s annual reports of Form 10-KSB, (B) Palatin’s quarterly reports on Form 10-QSB, (C) Palatin’s current reports on Form 8-K and (D) all other SEC or other similar reports filed pursuant to the requirements of applicable law in any jurisdiction.

(e) From and after the date hereof and for so long as this Agreement is in effect with respect to any portion of the Territory, if, as a result of (i) the issuance and sale by Palatin of any shares of Common Stock (including the issuance of Common Stock upon exercise or conversion of securities exercisable for or convertible into Common Stock) or (ii) the issuance by Palatin of any Common Stock or other securities in connection with any stock split, stock dividend or other recapitalization (any such issuance described in clauses (i) or (ii) of this sentence being referred to herein as a "Dilutive Event"), a decrease occurs in the percentage of outstanding Palatin Common Stock owned by Mallinckrodt (assuming full conversion of the Preferred Stock) (the "Mallinckrodt Ownership"), then Mallinckrodt shall have the right, exercisable as provided below, (i) if, at the time of the occurrence of the Dilutive Event, the Preferred Stock is not then convertible, to receive that number of shares of Preferred Stock which, when converted along with all other shares of Preferred Stock and combined with all other shares of Common Stock then owned by Mallinckrodt, would be required to preserve the Mallinckrodt Ownership at the same percentage immediately before and after the Dilutive Event or (ii) if, at the time of the occurrence of the Dilutive Event, the Preferred Stock is then convertible, to receive that number of Common Shares which, when combined with all other shares of Common Stock owned by Mallinckrodt (including Common Stock underlying any Preferred Stock then owned by Mallinckrodt), would be required to preserve the Mallinckrodt Ownership at the same percentage immediately before and after the Dilutive Event. The foregoing right shall be exercisable by payment of the purchase price and delivery of the notice described below. The purchase price per share of Preferred Stock or Common Stock, as the case may be, to be paid by Mallinckrodt upon exercise of the foregoing right shall be equal to the consideration per share (if any) paid or to be paid by the person to whom securities are being issued in connection with the Dilutive Event. If the consideration paid by any such third party for such securities is other than cash, such consideration shall be presumed to be cash equal to the fair market value of such consideration as determined by an independent party acceptable to both Mallinckrodt and Palatin. The cost of making such determination, if any, shall be borne by Palatin. Palatin shall provide written notice to Mallinckrodt of a Dilutive Event within five (5) days after the issuance of any securities giving rise to the dilution, and Mallinckrodt shall make its election to purchase all or any portion of the securities which it is entitled to purchase or receive in accordance herewith to preserve its percentage interest in the Common Stock by written notice to Palatin no more than thirty (30) days following its receipt of Palatin’s written notice of a Dilutive Event. Upon failure timely to give written notice to Palatin of such election Mallinckrodt shall be deemed to have waived its right to purchase or receive any additional securities of Palatin on such occasion. Mallinckrodt shall pay the purchase price (if any) for the securities it so elects to purchase or receive within thirty (30) days subsequent to its notice of election to purchase or receive additional securities. It is understood by the parties hereto that any failure by Mallinckrodt on any occasion to purchase or receive all or some of the securities which it is entitled to purchase or
receive pursuant to this subsection (e) as a consequence of the occurrence of a single Dilutive Event shall not affect the right of Mallinckrodt, on the subsequent occurrence of any different Dilutive Event, to purchase or receive all or any portion of the securities which it is then entitled to purchase or receive as a consequence of the operation of this subsection (e).

(f) In determining the amount of consideration paid to Palatin for the issuance of Common Stock upon the exercise or conversion of exercisable or convertible securities, all amounts paid to Palatin in consideration for the issuance of the convertible or exercisable securities shall be included as part of the consideration paid.

(g) The provisions of the foregoing subsection (e) shall not apply with respect to the issuance of Common Stock in connection with, or upon the exercise or conversion of securities issued in connection with, the following transactions:

(i) exercise of rights or options granted or which may be granted under a stock option or other plan for the benefit of employees, directors and/or consultants;

(ii) exercise of rights, warrants or options outstanding on the date hereof (as described on Exhibit G);

(iii) after such time as Mallinckrodt first becomes eligible to convert any of the Preferred Stock in accordance with Section 5.2(c) above, upon the issuance and sale of any shares of Common Stock, including the issuance of Common Stock upon exercise of convertible or exercisable securities sold in a firm commitment underwritten public offering, including, without limitation, shares sold upon the exercise of any overallotment option granted to the underwriters in connection with such offering;

(iv) conversion of any shares of Palatin's outstanding preferred stock of any other series, as well as any additional shares of Preferred Stock issued pursuant to Section 5.2(e); and

(v) issuance of Common Stock pursuant to antidilution provisions contained in existing employment agreements (as described on Exhibit G), and the issuance of Common Stock pursuant to antidilution provisions described on the certificate of designations with respect to the Series A Preferred Stock (also as described on Exhibit G).

(h) The purchase by Mallinckrodt of the Preferred Stock on and as of the date hereof and any additional securities of Palatin that Mallinckrodt may be entitled to acquire in accordance with the provisions of the Section 5.2(e) may be accomplished in accordance with the terms of a separate subscription agreement or similar agreement if Palatin so desires; provided that, such agreement shall in all respects be consistent with the terms hereof and in the event of any conflict or inconsistency between the terms of such agreement and the terms of this Agreement, the latter shall prevail.

5.3 Piggyback Registration Rights.

(a) In the event that, at any time during a five (5) year period following the date on which Mallinckrodt first becomes eligible to convert any of the Preferred Stock in accordance with Section 5.2(c) above, Palatin proposes to register any of its Common Stock under the Securities Act in connection with the public offering of such securities utilizing a form that would additionally permit the registration of all or any portion of the Common
Shares then held by Mallinckrodt, Palatin shall notify Mallinckrodt of such fact at least thirty (30) days prior to the date established for such public offering and shall give Mallinckrodt, subject to the limitations and restrictions of this Section 5.3, the right to have included in any such registered public offering all or any portion of the Common Shares as Mallinckrodt shall notify Palatin within twenty (20) days after Mallinckrodt is given notice of any intended registered public offering by Palatin. If Mallinckrodt shall not provide any such notice to Palatin within said twenty (20) day period, Mallinckrodt shall be conclusively presumed to have waived its right to have all or any portion of the Common Shares included in any such Palatin registered public offering. Mallinckrodt’s rights shall not affect Mallinckrodt’s rights at any later date and in connection with any subsequent public offering by Palatin to have some or all of its Common Shares registered in accordance with the provisions and limitations of this Section 5.3. Palatin shall use reasonable commercial efforts to cause the managing underwriter or underwriters, if any, of a proposed underwritten offering to permit Mallinckrodt, if Mallinckrodt has validly requested that some or all of its Common Shares be included in the registration for such offering in accordance with the provisions of this subsection, to include such Common Shares in such offering on the same terms and conditions as any similar securities of Palatin included therein. Nothing herein shall prevent Palatin from at any time abandoning or delaying any such registration or prevent Mallinckrodt from exercising its registration rights under this Section 5.3 any number of times prior to the expiration of the period during which such rights are available hereunder. Notwithstanding anything to the contrary contained herein, Mallinckrodt shall not have the right to include all or any portion of the Common Shares in a registered public offering by Palatin, pursuant to this Section 5.3, if all of the Common Shares then held by Mallinckrodt become eligible for sale in any three (3) month period pursuant to Rule 144 under the Securities Act or any successor Rule.

(b) Notwithstanding the provisions of subsection (a) set forth immediately above, Mallinckrodt shall not have the right to include all or any portion of the Common Shares in a registered public offering by Palatin if, in the reasonable judgment of the underwriter(s) or managing underwriter(s) for any such registered public offering, the addition of some or all of the Common Shares that Mallinckrodt wishes to have registered in connection therewith might reasonably materially adversely affect the sale of all of the shares included in such offering under the terms of the registered offering and during the period of effectiveness of the registration statement with respect thereto. In the event that the underwriter(s) or managing underwriter(s) with respect to any such public offering determines, in its reasonable judgment, that some but not all of the Common Shares that Mallinckrodt requested be included in any Palatin registered public offering may be included in such offering, then Palatin will notify Mallinckrodt as to the portion of the Common Shares that may be so included and, unless Mallinckrodt notifies Palatin to the contrary within fifteen (15) days of being so notified, that portion, and only that portion, will be included in the registration relative to any such public offering. If Mallinckrodt does timely notify Palatin to the contrary, none of its Common Shares shall be included in such registration.

(c) In the event that Mallinckrodt exercises its rights under this Section 5.3 and, in connection with any registered public offering by Palatin, some portion of the Common Shares is included in the registration statement with respect thereto, Mallinckrodt shall furnish Palatin with such information concerning the Common Shares to be registered or otherwise incident to the registration as Palatin shall reasonably request. Mallinckrodt’s rights pursuant to this Section 5.3 shall be subject to its compliance with any such Palatin request.

(d) Palatin shall bear all expenses of any registered public offering made pursuant to Section 5.3 in which all or any portion of the Common
Shares is included; provided that, Mallinckrodt shall be responsible for any cost or expense (i) of its employees, agents, advisors or representatives to the extent utilized in connection with any such registered public offering, (ii) for the preparation of any financial statements, documents or the assembly or preparation of any other information concerning Mallinckrodt requested by Palatin pursuant to subsection (c) set forth immediately above and (iii) underwriters’ discounts and commissions applicable to the Common Shares included in the offering.

(e) Palatin shall have an obligation, with respect to any registered public offering made pursuant to Section 5.3 in which all or any portion of the Common Shares is included, to use reasonable commercial efforts to keep any registration statement effective, subject to Section 5.5(b), for at least thirty (30) days.

5.4 Demand Registration Rights.

(a) Mallinckrodt will have the right, on no more than two (2) occasions, and at any time within five (5) years after the date on which Mallinckrodt first becomes eligible to convert any of the Preferred Stock in accordance with Section 5.2(c) above, to demand by notice to Palatin that Palatin register all or any portion of the Common Shares then owned by Mallinckrodt, which notice must specify the number of Common Shares to be registered and the intended method of disposition of those shares. Upon receipt of any such notice from Mallinckrodt, Palatin will take all actions reasonably necessary and appropriate to insure that, subject to the restrictions and limitations set forth in this Section 5.4 and otherwise, subject to any delays, requirements or restrictions that may be imposed by the SEC, the NASD or other regulatory authority, within forty-five (45) days of any such demand by Mallinckrodt, a registration statement shall be filed on Form S-3 (or any successor similar form if the use of such form is available) with respect to the Common Shares for which Mallinckrodt demanded registration, subject to any limitations set forth in Section 5.5 below. Palatin will use its best efforts to cause such registration statement to become effective as soon as possible and subject to Section 5.5(b) will use its best commercial efforts to keep any such registration statement effective for such period of time as may be necessary to sell all of the Common Shares to be sold thereunder. Notwithstanding anything to the contrary contained herein, Mallinckrodt shall not have the right to demand registration of all or any portion of the Common Shares, pursuant to this Section 5.4, if all of the Common Shares then held by Mallinckrodt become eligible for sale in any three (3) month period pursuant to Rule 144 under the Securities Act or any successor Rule.

(b) In the event that Mallinckrodt exercises its rights under this Section 5.4, Mallinckrodt shall furnish Palatin with such information concerning the Common Shares to be registered or otherwise incident to the registration as Palatin shall reasonably request. Mallinckrodt’s rights pursuant to Section 5.4 shall be subject to its compliance with any such Palatin request.

(c) Mallinckrodt shall bear all expenses of any registered public offering made pursuant to Section 5.4(a) above. If Mallinckrodt so elects, the offering of Common Shares pursuant to any demand registration shall be in the form of an underwritten offering. If any demand registration is in the form of an underwritten offering, Mallinckrodt will select and obtain the managing underwriter or underwriters that will administer the offering, provided that such managing underwriter or underwriters must be reasonably satisfactory to Palatin.

(d) Notwithstanding any other provisions of this Section 5.4, in the event that, with respect to Palatin’s Common Stock, a registration statement has been effective at any time during a ninety (90) day period
immediately prior to the giving of a demand notice for registration by Mallinckrodt pursuant to Section 5.4(a), Palatin shall have the right, exercisable by giving notice to Mallinckrodt within fifteen (15) days after any such notice from Mallinckrodt, to delay the filing of any registration statement by Palatin pursuant to this Section 5.4 for up to ninety (90) days after the date on which any such registration statement would otherwise be required to have been filed in accordance herewith.

(e) Notwithstanding any other provisions of this Section 5.4 and in addition to the provisions of subsection (d) set forth immediately above, Palatin may delay the filing of any registration demanded pursuant to Section 5.4(a) above if (i) it is in possession of material non-public information, the Chief Executive Officer of Palatin determines (based on advice of counsel) that such delay is necessary in order to avoid a requirement to disclose such material non-public information and the Chief Executive Officer of Palatin determines in good faith that disclosure of such material non-public information would not be in the best interests of Palatin and its shareholders or (ii) Palatin or any of its Affiliates is engaged in or proposes to engage in any material transaction, including a purchase or sale of assets or securities, financing transaction, merger, consolidation, tender offer or any other transaction that would require disclosure under any applicable securities laws, rules or regulations, with respect to which the Chief Executive Officer of Palatin in good faith determines that the filing of the registration demanded pursuant to this Section 5.4(a) could reasonably be expected materially to interfere with Palatin’s ability to consummate such transaction in a timely fashion. The period during which any delay contemplated by the immediately preceding sentence is in effect shall be referred to as a “Suspension Period.” A Suspension Period shall commence on and include the date on which Palatin provides written notice to Mallinckrodt of such determination and Palatin shall be entitled to postpone the filing of a registration statement in accordance with this Section 5.4(e) for a reasonable period of time not to exceed ninety (90) days with respect to any particular demand by Mallinckrodt for the registration of Common Shares pursuant to Section 5.4(a); provided that, Palatin shall deliver to Mallinckrodt a statement, signed by the Chief Executive Officer of Palatin, of the general reasons for such postponement or restriction on use and an estimate of the anticipated delay, which Palatin agrees shall be as short as possible given the circumstances justifying any such delay. Mallinckrodt agrees to keep the information relating to the delay confidential. Palatin shall promptly notify Mallinckrodt of the expiration of a Suspension Period or of its decision to shorten any Suspension Period.

(f) In the event Mallinckrodt determines, as a result of any delay occasioned by the operation of either subsection (d) or (e) of this Section 5.4, that it wishes to withdraw its demand for registration it may do so upon notice to Palatin. If, and only if, such withdrawal notice is given by Mallinckrodt less than ten (10) days prior to the scheduled end of any suspension period, the demand shall be with prejudice to its right on any future occasion (subject to the limitations set forth herein) to again demand registration of all or any portion of the Common Shares in accordance with Section 5.4(a). Failing such notice Palatin shall register the Common Shares demanded to be registered by Mallinckrodt pursuant to Section 5.4(a).

5.5 Registration Procedures.

(a) In connection with any registration to be effected in accordance with Section 5.3, Palatin will use reasonable commercial efforts to effect such registration to permit the sale of the Common Shares being sold in accordance with the intended method or methods of distribution or disposition thereof, and pursuant thereto Palatin will comply with the procedures and principles set forth in this Section 5.5, as they are applicable. In connection with any registration to be effected in accordance with Section 5.4, Palatin
will use its best efforts to effect such registration to permit the sale of the Common Shares being sold in accordance with the intended method or methods of distribution or disposition thereof, and pursuant thereto Palatin will comply with the procedures and principles set forth in this Section 5.5, as they are applicable.

(b) Palatin will prepare and file with the SEC, whenever required to do so by the terms of Sections 5.3 and 5.4, a registration statement relating to the registration on Form S-3 (or any successor or similar form) if the use of such form is available, unless Palatin shall reasonably determine that it is in the best interest of both Palatin and Mallinckrodt to file the registration statement by using a different form or procedure, and use reasonable commercial efforts (with respect to a registration pursuant to Section 5.3) or its best efforts (with respect to a registration pursuant to Section 5.4) to cause any such registration statement to become effective and remain effective for (i) at least thirty (30) days if Mallinckrodt exercises its piggyback registration rights pursuant to Section 5.3, or (ii) for such period of time as may be necessary to sell all of the Common Shares being offered for sale if Mallinckrodt demands the registration of any Common Shares pursuant to Section 5.4, but regardless of whether piggyback or demand registration, not later than the date that all Common Shares then held by Mallinckrodt become eligible for sale in any three (3) month period pursuant to Rule 144 under the Securities Act or any successor rule. With respect to the exercise by Mallinckrodt of any piggyback registration rights pursuant to Section 5.3 or any demand registration pursuant to Section 5.4 hereof and with respect to which Palatin includes any shares of Common Stock, before the filing of any registration statement or any prospectus, or any amendments or supplements thereto, Palatin will furnish to Mallinckrodt and the managing underwriter or underwriters, if any, copies of all such documents proposed to be filed and Mallinckrodt, within a period of five (5) business days of receipt of such copies, shall have the right to review and comment on such documents; provided that, Palatin shall consider any comments Mallinckrodt may have with respect to such documents but shall not be required to make any changes based on such comments unless Palatin believes any such changes would be in the best interest of Palatin and its shareholders and would be of benefit in the successful completion of the public offering. With respect to the exercise by Mallinckrodt of any demand registration rights pursuant to Section 5.4 hereof and with respect to which Palatin is not offering any shares, before filing any registration statement or any prospectus, or any amendments or supplements thereto, Palatin will furnish to Mallinckrodt and the managing underwriter or underwriters, if any, copies of all such documents proposed to be filed, and Palatin will not file any registration statement or amendment thereto or any prospectus or any supplement thereto to which the managing underwriter or underwriters, if any, shall reasonably object or to which Mallinckrodt shall reasonably object, as long as such objection is provided by notice to Palatin within twenty (20) business days after the receipt by the managing underwriter or underwriters or Mallinckrodt of any documents for review. For purposes of the immediately preceding sentence, Mallinckrodt or the managing underwriter or underwriters, if any, shall be deemed to have reasonably objected to such filing if any such registration statement, amendment, prospectus or supplement, as applicable, as proposed to be filed contains any untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading, which misstatement or omission is specifically identified to Palatin in writing in accordance with the requirements of the immediately preceding sentence.

(c) Palatin will prepare and file with the SEC such amendments and post-effective amendments to any registration statement as may be necessary to keep any such registration statement effective for the respective periods set forth in Sections 5.3 and 5.4 hereof and reiterated in subsection (b) set forth immediately above and will cause the prospectus to be supplemented by any
required supplement thereto, and as so supplemented to be filed pursuant to SEC Rule 424(b) (or any successor or similar rule), and to comply fully with the applicable provisions of SEC Rule 424(b) (or any successor or similar rule) in a timely manner.

(d) Palatin will notify Mallinckrodt promptly in writing (i) when the prospectus or any supplement thereto or post-effective amendment to any registration statement has been filed, and, with respect to the registration statement or any post-effective amendment thereto, when the same has become effective, (ii) of any request by the SEC for an amendment of or supplement to any registration statement, any preliminary prospectus, or the prospectus or for additional information, (iii) of the issuance by the SEC (or any state securities commission or other governmental authority) of any stop order suspending the effectiveness of any registration statement or of the suspension of qualification of the Common Shares for offering or sale in any jurisdiction, or the initiation of any proceeding for such purposes and (iv) of the happening of any event, including the filing of any information, documents or reports pursuant to the Securities Exchange Act of 1934 that makes any statement made in any registration statement or the prospectus (as then amended or supplemented) untrue in any material respect or which requires the making of any additions to or changes in any registration statement or the prospectus (as then amended or supplemented) in order to state a material fact required by the Securities Act of 1933, as amended, or the regulations thereunder to be stated therein or necessary in order to make the statements therein not misleading, or of the necessity to amend or supplement the prospectus (as then amended or supplemented) to comply with the Securities Act of 1933, as amended, or any other law.

(e) Palatin will, concurrent with the filing of any document that is to be incorporated by reference into any registration statement or the prospectus subsequent to the initial filing of any registration statement, provide a copy of such document to Mallinckrodt, at Mallinckrodt’s expense.

(f) Palatin will furnish to Mallinckrodt, without charge, one copy of every registration statement as first filed with the SEC, and of each amendment thereto.

(g) Palatin will deliver to Mallinckrodt, without charge, as many copies of any preliminary prospectus and the prospectus and any amendments or supplements thereto as Mallinckrodt may reasonably request, and Palatin hereby consents to the use of any preliminary prospectus and the prospectus (and any amendments or supplements thereto) by Mallinckrodt and the managing underwriter and each of the underwriters, if any, in connection with the public offering and the sale of any of the Common Shares covered by any preliminary prospectus and the prospectus (or any amendments or supplements thereto) in the manner specified therein.

(h) Palatin will use reasonable commercial efforts (with respect to any registration to be effected pursuant to Section 5.3) and its best efforts (with respect to any registration to be effected pursuant to Section 5.4) to cause the Common Shares covered by any registration statement to be registered with or approved by such other governmental authorities (including, without limitation, any applicable state securities or blue sky commissions) as may be necessary to enable the seller or sellers thereof or the underwriter(s), if any, to consummate the disposition of such Common Shares.

(i) Palatin will make available for inspection, at reasonable times and intervals, by a representative of Mallinckrodt, by any underwriter participating in any disposition pursuant to the filing of any registration statement in accordance herewith, and by any attorney or accountant retained by Mallinckrodt or any of the underwriters, all relevant financial and other
records, pertinent corporate documents and properties of Palatin and cause
Palatin's officers, directors and employees to supply all information reasonably
requested by Mallinckrodt, any underwriter, attorney or accountant in connection
with the filing of any such registration statement prior to its effectiveness.

(j) Palatin will cause all Common Shares covered by any
registration statement to be accepted for listing, subject to official notice of
issuance, on each securities exchange or quotation system on which similar
securities issued by Palatin are then listed.

(k) Palatin will enter into such underwriting agreements as
are reasonably requested by any underwriter(s) or managing underwriter(s)
containing such terms and conditions as are reasonably acceptable to Palatin.

(l) Palatin will otherwise use its best efforts to comply with
all applicable rules and regulations of the SEC.

5.6 Indemnification with respect to Registration Rights.

(a) In connection with any registration statement in which
Mallinckrodt is included as a selling stockholder, Palatin agrees to indemnify
and hold harmless (i) Mallinckrodt and (ii) each person, if any, who controls
Mallinckrodt within the meaning of Section 15 of the Securities Act of 1933, as
amended, or Section 20 of the Securities Exchange Act of 1934 (any person
referred to in clause (i) or (ii) may sometimes hereinafter be referred to as a
"Mallinckrodt Indemnitee") from and against any and all losses, claims,
damages, liabilities and expenses (including reasonable costs of investigation)
arising out of or based upon any untrue statement or alleged untrue statement of
a material fact contained in any preliminary prospectus or in any registration
statement or the prospectus or in any amendment or supplement thereto, or
arising out of or based upon any omission or alleged omission to state therein a
material fact required to be stated therein or necessary to make the statements
therein, in light of the circumstances in which such statements were made, not
misleading, except insofar as such losses, claims, damages, liabilities or
expenses arise out of or are based upon any untrue statement or omission or
alleged untrue statement or omission which has been made therein or omitted
therefrom in reliance upon and in conformity with the information furnished to
Palatin by or on behalf of such Mallinckrodt Indemnitee.

(b) In connection with any registration statement in which
Mallinckrodt is included as a selling stockholder, Mallinckrodt agrees to
indemnify and hold harmless (i) Palatin and (ii) each person, if any, who
controls Palatin within the meaning of Section 15 of the Securities Act of 1933,
as amended, or Section 20 of the Securities Exchange Act of 1934 (any person
referred to in clause (i) or (ii) may sometimes hereinafter be referred to as a
"Palatin Indemnitee") from and against any and all losses, claims, damages,
liabilities and expenses (including reasonable costs of investigation) arising
out of or based upon any untrue statement or alleged untrue statement of a
material fact contained in any preliminary prospectus or in any registration
statement or the prospectus or in any amendment or supplement thereto, or
arising out of or based upon any omission or alleged omission to state therein a
material fact required to be stated therein or necessary to make the statements
therein, in light of the circumstances in which such statements were made, not
misleading, to the extent and only to the extent such losses, claims, damages,
liabilities or expenses arise out of or are based upon any untrue statement or
omission or alleged untrue statement or omission which has been made therein or
omitted therefrom in reliance upon and in conformity with the information
furnished by Mallinckrodt to Palatin by or on behalf of any Mallinckrodt
Indemnitee.

(c) If any action is brought against any Palatin Indemnitee,
Mallinckrodt Indemnitee or selling stockholder in respect of which indemnity may be sought against Palatin or Mallinckrodt, as the case may be, pursuant to either Section 5.6(a) or 5.6(b) above, such indemnified party or parties shall promptly notify the indemnifying party in writing of the institution of such action (but the failure so to notify shall not relieve the indemnifying party from any liability pursuant to this Section 5.6, unless the indemnifying party shall have been materially prejudiced by such failure) and the indemnifying party shall promptly assume the defense of such action, including the employment of counsel (reasonably satisfactory to such indemnified party or parties) and payment of expenses. Such indemnified party or parties shall have the right to employ its or their own counsel in any such case, but the fees and expenses of such counsel shall be at the expense of such indemnified party or parties unless the employment of such counsel shall have been authorized in writing by the indemnifying party in connection with the defense of such action. Anything in this Section 5.6 to the contrary notwithstanding, the indemnifying party shall not be liable for any settlement of any such claim or action effected without its written consent, which shall not be unreasonably withheld.

5.7 Development Costs.

(a) All Development Costs of Palatin which have been incurred by Palatin prior to July 1, 1999 shall be the liability and responsibility of Palatin.

(b) Subject to Section 5.7(d) below, all Development Costs of Palatin that are incurred by Palatin after date hereof shall be shared equally by the parties and Mallinckrodt shall, therefore, pay one-half of all such Development Costs (i.e., the "Development Payments") to Palatin, such Development Payments to be made (subject to offset in accordance with Section 5.8(a) below and subject to audit in accordance with the provisions of subsection (c) set forth immediately below) on a monthly basis within thirty (30) days after the submission by Palatin to Mallinckrodt of an invoice and written report (accompanied by a statement of the principles and assumptions utilized by Palatin in calculating such Development Costs, a breakdown of the Development Costs between and among wages, supplies and contract research expenses which constitute "qualified research expenses" within the meaning of Section 41(b)(1) of the Internal Revenue Code of 1986, as amended, and by such supporting documentation and information as Mallinckrodt may request) demonstrating the amount of qualifying Development Costs incurred by Palatin in the previous calendar month. All Development Payments shall be payable in United States dollars. Any amounts payable under this subsection (b) and not paid by Mallinckrodt within the applicable thirty (30) day period shall accrue interest at an annual rate of eight percent (8%) on the unpaid balance due until paid.

(c) Upon the written request of Mallinckrodt, Palatin shall permit an independent public accountant selected by Mallinckrodt and acceptable to Palatin, which acceptance shall not be unreasonably withheld or delayed, to have access during normal business hours to such records of Palatin as may be necessary to verify the amount of any Development Costs incurred by Palatin in accordance herewith in respect of any calendar year (or portion thereof) ending not more than twelve (12) months prior to the date of such request. Subject to other relevant provisions of this subsection (c), all such verifications shall be conducted at Mallinckrodt’s expense and not more than twice in each calendar year. In the event that Mallinckrodt’s representative concludes that adjustments should be made in Mallinckrodt’s favor with respect to any audited period, then any appropriate refund of Development Payments, plus accrued interest at the annual rate of eight percent (8%) on any amounts due Mallinckrodt measured from the date on which any amount to be refunded was originally paid by Mallinckrodt, shall be made by Palatin within thirty (30) days of the date Mallinckrodt delivers to Palatin such representative’s written report so concluding (or, at Mallinckrodt’s option, shall be offset by Mallinckrodt against any future
Development Payments due by Mallinckrodt to Palatin hereunder), unless Palatin shall have a good faith dispute as to the conclusions set forth in such written report, in which case Palatin need not make the disputed portion of such repayment and shall provide written notice to Mallinckrodt within such thirty (30) day period of the nature of its disagreement with such written report. If Palatin shall have in writing so disputed such written report by Mallinckrodt’s representative, the parties shall thereafter, for a period of sixty (60) days after Palatin has provided written notice of such dispute, attempt in good faith to resolve such dispute and if they are unable to do so then the matter will be submitted to arbitration in accordance with Section 10.6 hereof. The fees charged by Mallinckrodt’s representative shall be paid by Mallinckrodt unless the audit discloses that adjustments in Mallinckrodt’s favor for the period under review are greater than five percent (5%) of the amount of Development Costs invoiced by Palatin to Mallinckrodt for such period, in which case Palatin shall pay the reasonable fees and expenses charged by such representative. Mallinckrodt agrees that all information subject to review under this subsection (c) is confidential and that it shall cause its representatives to retain all such information in confidence in accordance with the requirements of Article 7 below.

(d) Notwithstanding the provisions of Section 5.7(b) above, (i) no Development Payments will be made for any costs incurred after the termination of the Development Phase in any portion of the Territory with respect to a LeuTech Indication which is being developed in accordance with the Development Program and (ii) [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2]. Mallinckrodt hereby represents and warrants to Palatin that the Development Payments have been approved by all necessary action on the part of the Board of Directors of Mallinckrodt Inc., a New York corporation publicly traded on the New York Stock Exchange and the ultimate parent of Mallinckrodt, and that Mallinckrodt will take all steps necessary to ensure that Development Payments will be made to Palatin as and when due in accordance herewith.

5.8 Loans and Advances.

(a) Throughout the term of this Agreement, Palatin shall use its best efforts to maintain an amount of cash and cash equivalents sufficient to cover its anticipated operating expenses, including its estimated amount of the Development Costs as set forth in the Annual Development Plan for any year. If at any time Palatin’s cash reserves are not sufficient to cover its anticipated operating expenses and/or its portion of any Development Costs, Mallinckrodt will consider loaning (but shall not be under any obligation to loan) funds to Palatin, but only to the extent of any actual cash shortfall and only if commercial funding is demonstrably not available to Palatin. Any amounts loaned by Mallinckrodt to Palatin in accordance herewith shall be evidenced by a promissory note with terms reasonably acceptable to Mallinckrodt and shall be secured by such assets of Palatin as Palatin would normally be required to pledge as collateral in any commercial loan transaction. All amounts loaned by Mallinckrodt to Palatin shall bear interest at the prime rate plus two percentage points, as determined from the prime interest rate as published by the Wall Street Journal on the last day of the month preceding the month in which any such loan is made and shall be repayable in full as soon as Palatin’s cash reserves are restored, but in no event later than the third anniversary of the First Commercial Sale of LeuTech Products in the Territory or the second (2nd) anniversary of the date of any such loan, whichever occurs first. It is also understood that, if Palatin fails to make any payment with respect to any such loan as and when due under the terms of any applicable promissory note, Mallinckrodt shall have the right to offset against the principal and interest of any amounts loaned to Palatin and due and payable under the terms of any applicable promissory note all or any portion of any Development Payments due by Mallinckrodt to Palatin in accordance with the provisions of Section 5.7 or
Royalty Payments due by Mallinckrodt to Palatin in accordance with the provisions of Section 5.9, provided that, Mallinckrodt shall give written notice to Palatin of the amount and nature of any such offset contemporaneously with Mallinckrodt’s exercise of such right.

(b) Prior to the date hereof, Mallinckrodt advanced Palatin the sum of Two Million Dollars ($2,000,000) secured by a promissory note and a security agreement, copies of which are attached hereto as Exhibit H and Exhibit I. It is understood that the principal amount of such advance plus all accrued interest thereon is being repaid by Palatin to Mallinckrodt on and as of the date hereof by offset against that portion of the amount otherwise payable by Mallinckrodt to Palatin in accordance with Section 5.2(b) above. On the date hereof, Mallinckrodt will return to Palatin the original of the promissory note attached hereto as Exhibit H marked as cancelled and paid in full together with collateral under the Security Agreement.

5.9 Royalty Payments.

(a) [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

(b) During the term of this Agreement and with respect to any calendar quarter during which there are commercial sales of any LeuTech Products in the Territory, Mallinckrodt shall within sixty (60) days after the end of each such calendar quarter furnish to Palatin a written quarterly report showing: (i) the gross sales of LeuTech Products sold by Mallinckrodt and its Affiliates during the quarter just ended and the calculation of Net Sales from such gross sales revenue, (ii) any other revenues relating to LeuTech Products, including but not limited to royalties and any other payments from sublicensees and amounts paid by distributors, and (iii) the exchange rates used in determining Net Sales in United States dollars. Mallinckrodt shall keep complete and accurate records in sufficient detail to properly reflect all information contained in such report, and to enable Net Sales and Royalty Payments payable hereunder to be determined with accuracy.

(c) Upon the written request of Palatin, Mallinckrodt shall permit an independent public accountant selected by Palatin and acceptable to Mallinckrodt, which acceptance shall not be unreasonably withheld or delayed, to have access during normal business hours to such records of Mallinckrodt as may be reasonably necessary to verify the accuracy of the reports made by Mallinckrodt pursuant to Section 5.9(b) and the consequent Royalty Payments due Palatin in respect of any calendar year (or portion thereof) ending not more than twelve (12) months prior to the date of such request. Subject to other relevant provisions of this subsection (c), all such verifications shall be conducted at Palatin’s expense, not more than twice in each calendar year and no quarterly period may be audited more than once. In the event such Palatin representative concludes that additional Royalty Payments were owed to Palatin during such audited period, the additional Royalty Payments, plus accrued interest at the annual rate of eight percent (8%) on any amounts due Palatin measured from the date on which any amount owed to Palatin should have been paid by Mallinckrodt, shall be paid by Mallinckrodt within thirty (30) days of the date Palatin delivers to Mallinckrodt such representative’s written report so concluding, unless Mallinckrodt shall have a good faith dispute as to the conclusions set forth in such written report, in which case Mallinckrodt shall provide written notice to Palatin within such thirty (30) day period of the nature of its disagreement with such written report and may, if such written notice has been given, withhold payment of the disputed portion of any such Royalty Payment. If Mallinckrodt has provided written notice to Palatin that it disputes any of Palatin’s auditor’s conclusions, the parties shall thereafter, for a period of sixty (60) days, attempt in good faith to resolve such dispute and if they are unable to do so then the matter will be submitted to arbitration.
in accordance with Section 10.6. The fees charged by such representative shall be paid by Palatin unless the audit discloses that any Royalty Payments made by Mallinckrodt for the audited period were incorrect by more than five percent (5%), in which case Mallinckrodt shall pay the reasonable fees and expenses charged by such representative. Palatin agrees that all information subject to review under this subsection (c) is confidential and that it shall cause its representatives to retain all such information in confidence in accordance with the requirements of Article 7 below.

**Article 6**

**INTELLECTUAL PROPERTY**

6.1 General Principles. It is understood by the parties that, notwithstanding any payments that may be made by Mallinckrodt to Palatin hereunder and further notwithstanding the joint cooperation of the parties hereunder, throughout the existence of this Agreement and subsequent to its expiration, the Palatin Intellectual Property Rights (including, without limitation, the Palatin Patent Rights and the LeuTech compound) shall be and remain the sole property of Palatin, subject only to such licenses as may be granted to Mallinckrodt in accordance with any relevant provisions hereof. Any inventions or developments relating to LeuTech or any LeuTech Products pursuant to this Agreement, whether or not patentable, shall belong to Palatin.

6.2 Cross-Licensing. The parties understand that during the existence of this Agreement, one party may develop modifications, improvements or technology (whether patentable or not) in connection with their activities hereunder that may be of use to the parties in connection with their joint endeavors hereunder concerning LeuTech Products. The party that develops any such modifications, improvements or technology will notify the other party promptly of the existence and nature thereof. Any such modifications, improvements or technology developed by one party that are useful to the other party in performing its obligations hereunder concerning LeuTech Products shall be licensed by the developing party to the other party for use in connection with such other party's performance hereunder on a royalty-free basis, such license to be coterminous with the existence of this Agreement, except and to the extent otherwise provided in Section 3.2(b) or Article 9 hereof, as they may be applicable. Neither this Section nor any other provision of this Agreement shall be construed as granting any party a direct or implied license to any Intellectual Property Rights except as they apply to LeuTech Products.


(a) Palatin shall be responsible for maintenance of the Palatin Patent Rights and all other Palatin Intellectual Property Rights in its own name and at its own expense, keeping Mallinckrodt informed. Palatin agrees that it will not abandon the prosecution of any patent applications included within the Palatin Patent Rights nor will it fail to make any payment or fail to take any other action necessary to maintain its rights to an issued patent included in the Palatin Patent Rights without the prior written consent of Mallinckrodt.

(b) Palatin and Mallinckrodt shall each promptly notify the other in writing of any alleged or threatened infringement of patents or patent applications included in the Palatin Patent Rights of which they become aware. If any such actual or alleged infringement poses any reasonable threat to the commercial viability or success of any LeuTech Product that is being sold or marketed or is in the process of development hereunder, Palatin shall prosecute
any such infringement using counsel of its selection and no settlement or compromise or consent to the entry of any judgment or other voluntary final disposition of the suit may be entered into by Palatin without the consent of the Joint Steering Committee, which consent shall not unreasonably be withheld. [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

(c) In any infringement suit instituted by Palatin to enforce the Palatin Patent Rights pursuant to this Agreement, each party shall cooperate in all respects and, to the extent possible, have its employees testify when requested and make available relevant records, papers, information, samples and the like. [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

(d) In the event that a declaratory judgment action alleging invalidity or non-infringement of any of the Palatin Patent Rights shall be brought against Palatin, Palatin shall notify Mallinckrodt in writing. Unless the Joint Steering Committee decides that such action should not be defended, Palatin will defend said action using counsel of its selection, and no settlement, consent judgment or other voluntary final disposition of the action may be entered into by Palatin without the consent of the Joint Steering Committee, which consent shall not unreasonably be withheld. [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

6.4 Infringement Action Against Either Party. In the event that a suit or action is brought against either party alleging infringement of any third party patent right as a result of Mallinckrodt's or its Affiliates' rights pursuant to the license granted Mallinckrodt and its Affiliates under Section 2.1 hereof, such party shall notify the Joint Steering Committee. Palatin will defend said action, using counsel of its selection and reasonably acceptable to Mallinckrodt, and no settlement, consent judgment or other voluntary final disposition of the action may be entered into by Palatin without the consent of the Joint Steering Committee, which consent shall not unreasonably be withheld. [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2].

6.5 Cooperation Generally. Mallinckrodt shall make available to Palatin (or to Palatin's authorized attorneys, agents or representatives), its employees, agents, representatives or consultants (at Mallinckrodt's reasonable expense) to the extent reasonably necessary or appropriate to enable Palatin to file, prosecute and maintain patent applications and resulting patents included in the Palatin Patent Rights and relevant to the strategic collaboration hereunder for periods of time reasonably sufficient for Palatin to obtain the assistance it needs from such personnel.

6.6 No Ownership. Except as otherwise expressly provided in this Agreement, under no circumstances shall a party hereto, as a result of this Agreement or performance of its obligations hereunder, obtain any ownership interest in or other right to any technology, know-how, patents, pending patent applications, products or biological materials of the other party.

Article 7

CONFIDENTIALITY

7.1 Nondisclosure Obligations.

(a) Except as otherwise provided in this Article 7, during the term of this Agreement and for a period of ten (10) years thereafter, each party shall maintain in confidence and use only for purposes specifically authorized under this Agreement (i) all information and data, whether written or oral, received from the other party resulting from or related to the development,
manufacture, marketing or sale of LeuTech Products and (ii) all information and data not described in clause (i) but supplied by one party to the other party under this Agreement and marked "Confidential", or with words of similar import, or, if delivered orally, summarized and confirmed in writing in a manner clearly indicating its confidentiality. For purposes of this Article 7, information and data described in clause (i) or (ii) set forth in the immediately preceding sentence shall be referred to as "Information."

(b) To the extent it is reasonably necessary or appropriate to fulfill its obligations or exercise its rights under this Agreement, a party may disclose Information it is otherwise obligated under this Section 7.1 not to disclose to its Affiliates, sublicensees, distributors, consultants, agents, representatives and clinical investigators, only on a need-to-know basis and only on condition that such entities or persons agree in writing to keep the Information confidential for the same time periods and to the same extent as such party is required to keep the Information confidential and agree to use such Information only for purposes relevant to the performance by a party of its obligations under this Agreement. In addition, a party or its Affiliates (or any of their sublicensees or distributors) may disclose such Information to government or other regulatory authorities to the extent that such disclosure is reasonably necessary to obtain patents or authorizations to conduct clinical trials of, and to commercially market and sell, LeuTech Products.

(c) In addition to the exceptions to non-disclosure set forth in subsection (b) set forth immediately above, the obligation not to disclose or misuse Information shall not apply to any part of such Information that: (i) is or becomes part of the public domain other than by unauthorized acts of the party obligated not to disclose such Information or those of its Affiliates, or its or their distributors or sublicensees, (ii) can be shown by written documents to have been disclosed to the receiving party or its Affiliates, or to its or their distributors or sublicensees, by a third party without violation of an obligation of confidentiality with respect to such disclosure, (iii) can be demonstrated by competent evidence, prior to disclosure under this Agreement, already to have been in possession of the receiving party or its Affiliates, or its or their distributors or sublicensees, provided such Information was not obtained directly or indirectly from any third party that was under an obligation of confidentiality with respect to such Information and in violation of such obligation, (iv) can be demonstrated by competent evidence to have been independently developed by the receiving party or its Affiliates, or by its or their distributors or sublicensees, without breach of any of the provisions of this Agreement, or (v) is disclosed by the receiving party or its Affiliates, or by its or their distributors or sublicensees, pursuant to interrogatories, requests for information or documents, subpoenas or civil investigative demands (or similar process) issued by a court or governmental agency or pursuant to any other requirement of law, provided that the party so disclosing, if at all possible, notifies the other party prior to any such disclosure so that such other party (with the cooperation of the receiving party) can seek a protective order or other order limiting or preventing disclosure (if and to the extent available under the circumstances), and provided further that the party so disclosing furnishes only that portion of the Information which it is legally required to disclose under the circumstances.

7.2 Terms of this Agreement. Palatin and Mallinckrodt each agree not to disclose any terms or conditions of this Agreement to any third party without the prior consent of the other party, except as required by applicable law. If either party determines that it is required to file this Agreement with the SEC or other governmental agency for any reason, such party shall request confidential treatment of such portions of this Agreement as the parties shall together determine as appropriate. Notwithstanding the foregoing, prior to execution of this Agreement, Palatin and Mallinckrodt have agreed upon the substance of information that can be used as a routine reference in the usual
course of business to describe the terms of this transaction, and Palatin and Mallinckrodt may disclose such information, as modified by mutual agreement from time to time, without the other party's consent as may periodically become necessary or appropriate.

7.3 Publications.

(a) Procedure. The parties hereto acknowledge their mutual interest in obtaining patent protection for inventions which arise under this Agreement. In the event that either party, its employees or consultants or any other third party under contract to either party wishes to make a publication pertaining to the technical aspects of LeuTech Products (including any oral disclosure made without obligation of confidentiality) relating to work performed under this Agreement (the "Publishing Party"), such party shall transmit to the other party (the "Reviewing Party") a copy of the proposed written publication at least forty-five (45) days prior to submission for publication or an abstract of such oral disclosure at least thirty (30) days prior to submission of the abstract or oral disclosure, whichever is earlier. The Reviewing Party shall have the right (i) to propose modifications to the publication, (ii) to request a delay in publication or presentation in order to protect patentable information, or (iii) to request that the information be maintained as a trade secret and, in such case, the Publishing Party shall not make such publication.

(b) Delay. If the Reviewing Party requests a delay as described in Section 7.3(a)(ii), the Publishing Party shall delay submission or presentation of the publication for a period of ninety (90) days to enable patent applications protecting each party's rights in such information to be filed.

(c) Resolution. Upon the receipt of written approval of the Reviewing Party, the Publishing Party may proceed with the written publication or the oral presentation.

7.4 Injunctive Relief. The parties hereto understand and agree that remedies at law may be inadequate to protect a party against any breach by the other party (or any other person acting in concert with such other party or on its behalf) of any of the provisions of this Article 7. Accordingly, each party shall be entitled to the granting of injunctive relief or other equitable relief by a court of competent jurisdiction against any action that constitutes any breach of this Article 7, in addition to any monetary damages or other relief to which a party may be entitled.

Article 8

INDEMNITY

8.1 Mallinckrodt Indemnity Obligations. Subject to all of the applicable provisions of this Article 8, and excepting the separate indemnification and procedures set forth in Section 5.6, Mallinckrodt agrees to defend, indemnify and hold Palatin, its Affiliates and their respective directors, officers, employees and agents harmless from and against all costs, judgments, liabilities and damages resulting from claims asserted by a third party against Palatin, its Affiliates or their respective directors, officers, employees or representatives arising in connection with or as a result of (i) actual or asserted violations of any applicable law or regulation by Mallinckrodt, its Affiliates, sublicensees, distributors or representatives in connection with the sales, marketing and distribution (including, without limitation, storage and radiolabeling) of LeuTech Products, including without limitation, actual, alleged or asserted violations relating to adulterated, misbranded, mislabeled or LeuTech Products otherwise not in compliance with
applicable law or regulation, (ii) claims for bodily injury, death or property damage attributable to a recall ordered by a governmental agency or required by a confirmed failure of LeuTech Products to the extent caused by any act or omission to act by Mallinckrodt or its Affiliate or representative in connection herewith, and (iii) any negligent or willful or intentional act or omission to act by Mallinckrodt, its Affiliates or representatives in any manner in connection with performance hereunder.

8.2 Palatin Indemnity Obligations. Subject to all of the applicable provisions of this Article 8 and in addition to any obligations Palatin may have under Article 6 set forth above, and excepting the separate indemnification and procedures set forth in Section 5.6, Palatin agrees to defend, indemnify and hold Mallinckrodt, its Affiliates and their respective directors, officers, employees and agents harmless from and against all costs, judgments, liabilities and damages resulting from claims asserted by a third party against Mallinckrodt, its Affiliates or their respective directors, officers, employees or representatives arising in connection with or as a result of (i) actual or asserted violations of any applicable law or regulation by Palatin, its Affiliates, sublicensees, distributors or representatives in connection herewith, including (without limitation) any such actual or asserted violations by Palatin or by any third party contract manufacturer employed by Palatin by virtue of which any LeuTech Products manufactured, distributed or sold in any manner in connection herewith shall be alleged or determined to be adulterated, misbranded, mislabeled or otherwise not in compliance with such applicable law or regulation, (ii) claims for bodily injury, death or property damage attributable to a recall ordered by a governmental agency or required by a confirmed failure of LeuTech Products to the extent caused by any act or omission to act by Palatin or its Affiliates or representatives in connection herewith, (iii) any negligent or willful or intentional act or omission to act by Palatin, its Affiliates or representatives in any manner in connection with performance hereunder, and (iv) claims for bodily injury or death attributable to the toxicology, biologic activity or manufacture of LeuTech Products. It is understood between the parties, however, that since the LeuTech Products may be radiolabeled and stored by Mallinckrodt, its Affiliates, sublicensees, distributors or representatives, then with respect to any claims asserted by any third party concerning said radiolabeling and storage, Mallinckrodt shall indemnify Palatin pursuant to Section 8.1.

8.3 Product Liability. Mallinckrodt and Palatin understand and agree that, because of the nature of the collaborative effort set forth in this Agreement, should any third party claims be asserted against either or both of them or any of their Affiliates, agents or representatives that are in the nature of product liability claims (i.e., third party claims covered by the indemnification obligation of Palatin pursuant to clause (iv) of Section 8.2 above), the parties will cooperate to ensure that such claims are defended, settled and compromised in a manner that best protects the interests of both parties hereunder. However, unless and until Palatin can demonstrate otherwise, it shall be presumed that any third party claims relating to the toxicology, to the biologic activity or to the manufacture of LeuTech Products shall be the responsibility and liability of Palatin in accordance with clause (iv) of Section 8.2 above and Palatin shall defend such claim. Palatin shall be responsible for defending any such claims with counsel of its selection and will have the daily responsibility for managing the defense of such claim, keeping Mallinckrodt continually informed of any developments, issues or decisions that arise as a consequence of such claim. It is understood between the parties, however, that since the LeuTech Products will be radiolabelled by Mallinckrodt or its Affiliates, then with respect to any claims asserted by any third party concerning said radiolabelling, Mallinckrodt shall indemnify Palatin pursuant to Section 8.1. As the Joint Steering Committee shall determine, Palatin and Mallinckrodt will procure and maintain product liability insurance with responsible carriers in amounts and with coverages and deductibles determined by
8.4 Contribution. Notwithstanding any other provision of this Article 8, to the extent it is possible to determine with accuracy, each party shall only be responsible hereunder for and shall only have the duty to indemnify and hold harmless the other party hereunder for that portion of any loss, cost, damages or expense attributable to its acts or omissions to act, provided that (except as and to the extent set forth in the last sentence of Section 8.2 and the penultimate sentence of Section 8.3), Palatin shall be responsible for all product liability claims related to LeuTech Products without reference to its acts or omissions to act in connection with the circumstances surrounding any such claim. If, in connection with any third party claim for which both parties have responsibility for any loss, cost, damage or expense, it is impossible to determine or fairly estimate the relative proportion of responsibility of the parties, they shall each be responsible for an equal share of any such loss, cost, damage or expense. In the event there is any dispute between the parties concerning their relative proportion of responsibility with respect to any third party claim the parties shall attempt to resolve such dispute within sixty (60) days of the date it arises but, if they are unable to do so, the matter shall be referred to arbitration for resolution pursuant to Section 10.6.

8.5 Procedure. Unless and to the extent otherwise specifically provided herein, a party or any of its Affiliates (the "Indemnitee") that intends to claim indemnification under this Article 8 shall promptly notify the other party (the "Indemnitor") of any loss, claim, damage, or liability arising out of any third party claim or action in respect of which the Indemnitee intends to claim such indemnification, and the Indemnitor shall assume the defense thereof with counsel of its own choosing; provided, however, that an Indemnitee shall have the right to retain its own counsel, with the fees and expenses to be paid by the Indemnitor, if representation of such Indemnitee by the counsel retained by the Indemnitor, in the opinion of an independent counsel chosen by both parties, would be inappropriate due to actual or potential differing interests between such Indemnitee and any other party represented by such counsel in such proceedings. An Indemnitee shall not be entitled to indemnification under this Article 8 if any settlement or compromise of a third party claim is effected by the Indemnitee without the consent of the Indemnitor, which consent shall not be unreasonably withheld or delayed. An Indemnitee shall not be entitled to indemnification with respect to any third party claim in an amount in excess of the amount which such third party has unequivocally and in writing agreed with the Indemnitor it is willing to accept in settlement or compromise of any such third party claim. The failure by the Indemnitee to deliver notice to the Indemnitor within a reasonable time after the commencement of any such third party claim or action, if materially prejudicial to the Indemnitor's ability to defend such action, shall relieve such Indemnitor of any liability to the Indemnitee under this Article 8. An Indemnitee, and its employees, agents and representatives, shall cooperate fully with the Indemnitor and its legal representatives in the investigation of any action, claim or liability covered by this indemnification.

Article 9
EXPIRATION AND TERMINATION

9.1 Termination and Expiration of the Development Phase.

(a) Unless this Agreement is sooner terminated by either party in accordance with the provisions of this Article 9 or by Mallinckrodt in accordance with the provision of Section 3.2(b) above, the term of the Development Phase as to any LeuTech Product shall terminate in accordance with Section 1.13.
(b) In addition to the right of termination granted to Mallinckrodt by the provisions of Section 3.2(b) above, the Development Phase as to any LeuTech Product may be terminated prior to the completion of development of such LeuTech Product with respect to all or any portion of the Territory (i) at any time by the mutual consent of the parties, (ii) by one party, upon notice to the other party, if the terminating party has substantial evidence to support the conclusion that any such LeuTech Product is not likely to become a viable and profitable commercial product or (iii) by either party upon written notice to the other if the Joint Steering Committee does not approve the Annual Development Plan for such LeuTech Product pursuant to Section 3.1(f) and, after the matter has been submitted for dispute resolution pursuant to Section 4.1(e) hereof, the terminating party determines in good faith that it is unable to proceed with development of such LeuTech Product based on the determination of the arbitrator.

(c) In the event that, pursuant to subsection (b) set forth immediately above, the Development Phase is terminated prior to the completion of development of any LeuTech Product for all or any portion of the Territory, then all rights with respect to the use, manufacture, marketing, distribution for sale, licensing and sublicensing of such LeuTech Product with respect to such portion of the Territory shall revert to Palatin.

(d) The expiration or termination of the Development Phase with respect to any LeuTech Product for all or any portion of the Territory shall not relieve the parties of any obligation that accrued with respect thereto prior to such expiration or termination, including either party's right to recover all costs and expenses incurred or committed prior to such expiration or termination. Furthermore, notwithstanding any other provisions hereof, the expiration or termination of the Development Phase with respect to any or all LeuTech Products shall have no effect whatsoever on (i) the rights of either party under the provisions of Sections 5.2, 5.3, 5.4, 5.5 and 5.6 above or (ii) the issuance and sale of the Preferred Stock.

9.2 Termination and Expiration of this Agreement.

(a) This Agreement may be terminated by either party upon thirty (30) days notice (i) by reason of a material breach (other than as provided in clauses (ii) or (iii) below) if the breaching party fails to remedy such breach within ninety (90) days after written notice thereof by the non-breaching party, (ii) if the other party fails to make any payments of any kind as and when due in accordance with the terms and procedures set forth herein and such failure is not remedied within forty five (45) days after written notice thereof by the non-breaching party (unless and to the extent there exists a good faith dispute as to the amount of any such payment due) or (iii) upon the bankruptcy, insolvency, dissolution or winding up the other party, except, in the case of a petition relative to any of the immediately foregoing filed involuntarily against a party if such petition is dismissed within sixty (60) days of the date of its filing.

(b) Unless renewed in writing by both Palatin and Mallinckrodt or unless terminated earlier in accordance herewith, this Agreement shall expire on and as of the end of the calendar quarter subsequent to the calendar quarter in which the last commercial sale of Product Units of any LeuTech Product by Mallinckrodt occurs. This Agreement shall expire if, after the date of the First Commercial Sale of any LeuTech Product, there are no commercial sales of LeuTech Products for two full calendar quarters.

9.3 Effect of Expiration or Termination of this Agreement.

(a) The expiration or termination of this Agreement for any reason shall not relieve the parties of any obligation that accrued prior to
such expiration or termination. Furthermore, notwithstanding any other provision hereof, the expiration or termination of this Agreement for any reason shall have no effect whatsoever on (i) the rights of either party under the provisions of Sections 5.2, 5.3, 5.4, 5.5 and 5.6 above or (ii) the issuance and sale of the Preferred Stock.

(b) In the event that this Agreement is rightfully terminated by Palatin pursuant to Section 9.2(a), Palatin shall be entitled to claim from Mallinckrodt in a court of competent jurisdiction all damages or other relief which would otherwise be available to Palatin at law or in equity and the following shall also apply:

(i) all licenses and rights granted to Mallinckrodt hereunder shall terminate, on and as of the effective date of such termination (except for any license granted by Palatin to Mallinckrodt pursuant to the last sentence of Section 6.2 above);

(ii) for a period of one (1) year following the effective date of termination Mallinckrodt may dispose of its inventory of Product Units on hand as of the effective date of termination and may fill any orders for Product Units accepted prior to the effective date of termination, and within thirty (30) days after disposition of such inventory and fulfillment of such orders (and in any event within thirty (30) days after the first anniversary of the effective date of termination) Mallinckrodt will forward to Palatin a final report of sales activity containing the details required by Section 5.9(b) hereof and Mallinckrodt shall pay all Royalty Payments payable as a consequence of the Net Sales of Product Units for such period as reflected in such report;

(iii) Mallinckrodt shall take all action reasonably necessary to assign all of its right, title and interest in any trademark or trade name owned by Palatin under which Mallinckrodt shall have marketed or sold LeuTech Products, together with the goodwill associated therewith, to Palatin (provided that, this provision shall not affect Mallinckrodt’s right to any trademark or trade name owned by Mallinckrodt); and

(iv) Mallinckrodt shall, (A) to the extent legally permissible, take all additional action reasonably necessary to assign all of its right, title and interest in, and transfer possession and control to, Palatin of the regulatory filings (if any) prepared by Mallinckrodt, and regulatory approvals if (any) received by Mallinckrodt, to the extent that such filings and approvals relate to LeuTech Products and (B) deliver to Palatin at the end of the first anniversary of the effective date of termination all Information supplied by Palatin to Mallinckrodt.

(c) In the event that this Agreement is rightfully terminated by Mallinckrodt pursuant to Section 9.2(a), Mallinckrodt shall be entitled to claim from Palatin in a court of competent jurisdiction all damages or other relief which would otherwise be available to Mallinckrodt at law or in equity and the following shall also apply:

(i) Mallinckrodt’s license rights under Section 2.1 hereof (exclusive of any rights under the MCA 480 Cell Line License Agreement between the Wistar Institute of Anatomy and Biology and Palatin dated June 16, 1997, hereinafter the “Wistar Agreement”) shall (notwithstanding any other provisions hereof) be considered to be exclusive, perpetual and irrevocable, and shall not otherwise be restricted or limited in any manner from the license granted as set
forth herein, except that Mallinckrodt shall continue to make Royalty Payments to Palatin in accordance with the provisions of Section 5.9;

(ii) Palatin shall continue to manufacture LeuTech Products for Mallinckrodt, at Palatin’s Product Direct Cost for such manufacture (i.e., not at the Transfer Price that may then be in effect), for a period of up to three (3) years after the effective date of such termination or, at Mallinckrodt’s option, and as soon after the effective date of such termination as possible (but in any event no later than six (6) months thereafter), shall transfer to Mallinckrodt, on a non-exclusive basis, such contractual rights (i.e., rights under its contracts with all third party contract manufacturers, consultants or other subcontractors) and such rights to its intellectual property and such know-how as may be necessary to enable Mallinckrodt or a third party or parties designated by Mallinckrodt to manufacture LeuTech Products in sufficient quantity thereafter to meet Mallinckrodt’s requirements for LeuTech Products;

(iii) Palatin shall (A) to the extent legally permissible, take all actions necessary to assign to Mallinckrodt all of the regulatory filings and approvals Palatin has that may be necessary or useful to Mallinckrodt in exercising its license rights and manufacturing rights as set forth in clauses (i) and (ii), respectively, of this subsection (c) or if such assignment is not readily available, take all actions available to it in support of any new filings or approvals made or sought by Mallinckrodt, (B) deliver to Mallinckrodt copies any and all documents it has containing Information or other data that may be necessary or useful to Mallinckrodt in exercising its license rights and manufacturing rights as set forth in clauses (i) and (ii), respectively, of this subsection (c), which Information may be employed by Mallinckrodt as needed in connection with such rights subject to the requirements of Article 7 hereof, (C) grant to Mallinckrodt a non-exclusive, worldwide, paid-up license (including the goodwill associated therewith) to the rights of Palatin in and to any trademarks or trade names under which Mallinckrodt shall have marketed or sold LeuTech Products at any time prior to the effective date of termination, and (D) deliver to Mallinckrodt at the end of the first (1st) anniversary of the effective date of termination all Information supplied by Mallinckrodt to Palatin; and

(iv) Palatin shall assign its rights under the Wistar Agreement to Mallinckrodt.

9.4 Survival. The provisions of this Agreement shall survive termination or expiration to the extent necessary for them to be fully performed in accordance with their express terms.

Article 10

MISCELLANEOUS

10.1 Force Majeure. Neither party shall be held liable or responsible to the other party nor be deemed to have defaulted under or breached this Agreement for failure or delay in fulfilling or performing any term of this Agreement when such failure or delay is caused by or results from causes beyond the control of the affected party, including but not limited to fire, floods, embargoes, war, acts of war (whether war is declared or not), insurrections, riots, civil commotions, the existence or administration of any laws, rules or regulations, strikes, lockouts or other labor disturbances, acts of God or acts, omissions or delays in acting by any governmental authority or the other party; provided, however, that the party so affected shall use reasonable commercial
efforts to avoid or remove such causes of nonperformance, and shall continue performance hereunder with reasonable dispatch whenever such causes are removed. Each party shall provide the other party with prompt written notice of any delay or failure to perform that occurs by reason of force majeure. The parties shall mutually seek a resolution of the delay or the failure to perform as noted above.

10.2 Assignment. This Agreement may not be assigned or otherwise transferred by either party without the prior written consent of the other party, except that, either Palatin or Mallinckrodt may, without such consent, assign its rights and obligations under this Agreement, (i) in connection with a corporate reorganization, to any Affiliate, or (ii) to an unrelated third party in connection with a merger, consolidation or sale of substantially all of a party’s assets to such unrelated third party (which shall include, in the case of Mallinckrodt, a sale of substantially all of the assets of Mallinckrodt’s Imaging Group); provided that, in the case of either clause (i) or (ii) the assigning or transferring party’s rights and obligations under this Agreement shall be assumed in writing by its successor in interest in any such transaction and shall not be transferred separate from all or substantially all of its other business assets (except as otherwise specifically noted with respect to Mallinckrodt), including those business assets that are the subject of this Agreement. Any purported assignment in violation of the preceding sentence shall be void. Any permitted assignee shall assume all obligations of its assignor under this Agreement.

10.3 Severability. Should one or more provisions of this Agreement be or become invalid or unenforceable, the parties hereto shall substitute, by mutual consent, valid and enforceable provisions for such invalid or unenforceable provisions which new provisions, in their economic and other effects, are sufficiently similar to the invalid or unenforceable provisions that it can be reasonably assumed that the parties would have originally entered into this Agreement with such new provisions. In case such new provisions cannot be agreed upon, the invalidity or unenforceability of one or several provisions of this Agreement shall not affect the validity of this Agreement as a whole or the validity of any portions hereof, unless the invalid or unenforceable provisions are of such essential importance to this Agreement that it is to be reasonably assumed that the parties would not originally have entered into this Agreement without such invalid or unenforceable provisions.

10.4 Notices. Any consent, notice or report required or permitted to be given or made under this Agreement by one of the parties hereto to the other shall be in writing, delivered personally or by facsimile (and promptly confirmed by telephone, personal delivery or courier) or courier, postage prepaid (where applicable), addressed to such other party at its address indicated below, or to such other address as the addressee shall have last furnished in writing to the addressee and shall be effective upon receipt by the addressee.

If to Palatin: Palatin Technologies, Inc.
214 Carnegie Center, Suite 100
Princeton, New Jersey 08540
Telephone: (609) 520-1911
Facsimile: (609) 452-0880

with a copy to: Graham & James LLP
885 Third Avenue, 21st floor
New York, New York 10022-4834
Attn: Faith Charles, Esq.
Telephone: (212) 848-1000
Facsimile: (212) 688-2449
10.5 Applicable Law. This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without giving effect to its choice of laws provisions that might apply the law of another jurisdiction.

10.6 Dispute Resolution.

(a) The parties hereby agree that they will attempt in good faith to resolve any controversy or claim arising out of or relating to this Agreement promptly by negotiations and, where provided for, in accordance with any specific provisions for dispute resolution set forth elsewhere in this Agreement. If a controversy or claim should arise hereunder, the representatives of the parties will confer at least once and will attempt to resolve the matter. Except as specifically provided elsewhere in this Agreement, if the matter has not been resolved within sixty (60) days of their first meeting, the representatives shall refer the matter to the Chief Executive Officer of Palatin and the President of Mallinckrodt’s Imaging Group. If the matter has not been resolved within sixty (60) days of the first meeting of the Chief Executive Officer of Palatin and the President of Mallinckrodt’s Imaging Group (which period may be extended by mutual agreement), subject to a party’s rights in an appropriate case to seek injunctive relief or specific performance from a court of appropriate jurisdiction, and unless otherwise specifically provided for herein, any controversy or claim arising out of or relating to this Agreement, or the breach thereof, will be settled as set forth in subsection (b) set forth immediately below.

(b) Subject to the provisions of subsection (a) set forth immediately above, all disputes, controversies or differences which arise between the parties out of or in relation to this Agreement or any default or breach thereof will be resolved by arbitration in accordance with the American Arbitration Association by one or more arbitrators appointed in accordance with the said Rules. The arbitration shall take place in New York. Any decision or award resulting from the arbitration provided for herein shall be final and binding on the parties hereto. Notwithstanding the immediately foregoing provisions of this subsection (b), without resort to arbitration in the first instance, either party has the right to bring suit in a court of competent jurisdiction against the other party for (i) any breach of such other party’s duties of confidentiality pursuant to Article 7 of this Agreement, (ii) any infringement of its own proprietary rights by the other party, (iii) or in any other circumstance in which the right to bring suit is contemplated by the express language hereof. Judgment upon the arbitrator’s award may be entered in any court of competent jurisdiction. The award of the arbitrator may include compensatory damages against either party, but under no circumstances will the arbitrator be authorized to award punitive damages, consequential, special, exemplary, indirect or multiple damages against either party. The parties agree
not to institute any litigation or proceedings against each other in connection with this Agreement unless they have complied with the provisions of this subsection (b), as they may be applicable, unless otherwise provided or allowed herein. The fees and expenses associated with arbitration shall be shared equally between Palatin and Mallinckrodt.

10.7 Public Announcements. The parties agree that press releases and other public announcements to be made by either of them in relation to this Agreement, including disclosing the name of the other party, shall be subject to the written consent of the other party, which consent shall not be unreasonably withheld or delayed, except that the parties may (without such consent) (i) make any such press release that is required to be made by law, if the consent of the other party has been sought but has not been timely obtained after reasonable efforts to do so and (ii) disclose any information covered by a prior consent obtained in accordance with this Section 10.7. The parties will agree to issue a joint press release immediately following the execution of this Agreement, the form and content of which shall be reasonably satisfactory to both parties.

10.8 Entire Agreement. This Agreement, together with the exhibits and appendices hereto, contains the entire understanding of the parties with respect to the subject matter hereof. All express or implied agreements and understandings, either oral or written, heretofore made are expressly merged in and made a part of this Agreement. This Agreement may be amended, or any term hereof modified, only by a written instrument duly executed by authorized representatives of both parties hereto.

10.9 Headings. The captions to the several articles and sections hereof are not a part of this Agreement, but are merely guides or labels to assist in locating and reading the several articles and sections hereof.

10.10 Waiver. The waiver by a party hereto of any right hereunder or the failure of a party to object on any occasion to a breach or failure of performance by the other party shall not be deemed a waiver of a party’s other rights hereunder or its right, on any subsequent occasion, to object to a breach by the other party of any terms hereof or to insist upon the performance by the other party of its obligations hereunder.

10.11 Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument.

10.12 Agreement Not to Solicit Employees. During the term of this Agreement and for a period of two (2) years following the expiration or termination of this Agreement, Palatin and Mallinckrodt agree not to seek to persuade or induce any employee of the other company to discontinue his or her employment with that company in order to become employed by or associated with any business, enterprise or effort that is associated with its own business.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first set forth above.

PALATIN TECHNOLOGIES, INC.
LIST OF EXHIBITS

Exhibit A  Development Costs - Overhead Cost Allocation Principles
Exhibit B  Launch and Pre-Launch Activities
Exhibit C  Chemical Structure of LeuTech Compound
Exhibit D  Palatin Patent Rights
Exhibit E  Certificate of Designation for Preferred Stock
Exhibit F  Available LeuTech Products
Exhibit G  Characteristics of Preferred Stock
Exhibit H  Promissory Note
Exhibit I  Security Agreement

EXHIBIT "A"

PALATIN TECHNOLOGIES, INC.
Cost Allocation Principles

[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]

EXHIBIT B
Launch and Pre-Launch Activities

Launch Plan
- Design and establishment of sales and marketing programs
- Establishment of distribution network
- Design and production of sales aids and distribution of sales brochures
- Design and execution of product premium programs
- Establishment of a journal advertising campaign
- Design and distribution of educational package for radiopharmacies
- Design and production of direct mail offerings
- Establishment of sampling program
- Design and production of journal advertisements
- Trade show scheduling and attendance
- Creation of trade show displays
- Establishment of a Physician Advisory Board
- Scheduling of symposia and speaker program
- Design and establishment of Internet based information/advertising
- Creation and distribution of physician information packages
- Establishment of a speakers' bureau
- Development of a Phase IV protocol

EXHIBIT C
(LeuTech Biological Molecule)

The biological molecule that is the active component of LeuTech is [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]

EXHIBIT D
(Palatin Patent Rights)

United States Patents:
1. U.S. Patent No. 5,346,687, issued September 13, 1994, for Direct Radiolabeling of Antibody against Stage Specific Embryonic Antigen for Diagnostic Imaging


   Corresponding Australian patent No. 650629
   Canadian patent application No. 2,065,299-3
   EP No. 0 486 622 B1 - Confirmed in Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Spain, Sweden, Switzerland and United Kingdom
   Japanese application No. 2-514515


5. U.S. Patent 5,011,676, issued April 30, 1991, for Improved Method to Directly Radiolabel Antibodies for Diagnostic Imaging and Therapy (Subject to License Agreement between Thomas Jefferson University and RhoMed, Incorporated)


License Agreements:


EXHIBIT E

CERTIFICATE OF DESIGNATIONS
of
SERIES C CONVERTIBLE PREFERRED STOCK
of
PALATIN TECHNOLOGIES, INC.

[Filed separately as Exhibit 3.7 to Palatin’s annual report on Form 10-KSB for
the year ended June 30, 1999, filed with the SEC on September 28, 1999.]

EXHIBIT F
(Available LeuTech Products)

LeuTech Products

1. LeuTech kit for producing 99mTc radiolabeled RB5 IgM for injection
containing one (1) [INFORMATION OMITTED AND FILED SEPARATELY WITH THE
COMMISSION UNDER RULE 24b-2.]

Palatin Technologies, Inc.

Exhibit G

- Warrants and options outstanding as of August 10, 1999 totaled 4,692,999
  (See common stock dilution table attached)

- Existing employment agreements with anti-dilution provisions include:
  - Edward Quilty
  - Charles Putnam
  - Carl Spana
  - Stephen T. Wills
  - A summary of anti-dilution protections in employment agreements
following:

Edward J. Quilty: Palatin must issue additional anti-dilution options at $.20 per share, so that Mr. Quilty shall, at all times, have options in the aggregate to purchase the number of shares of common stock (together with common stock previously purchased on the exercise of such options) equal to not less than 3.75% of the outstanding common stock on a fully diluted basis. The amount of common stock purchasable will be adjusted proportionately in the event of any stock dividend, stock split, recapitalization, exchange, merger, etc.

Charles L. Putnam, Carl Spana and Stephen T. Wills: If Palatin issues new common stock or common stock derivative securities which increase the outstanding common stock by 40% or more over the amount outstanding at the time of the agreements, then Palatin must issue additional options at $2.50 per share so that each of the three officers has options to purchase the same percentage of the outstanding common stock as he was able to purchase before the issuance of the new securities. The amount of common stock purchasable will be adjusted proportionately in the event of any stock dividend, stock split, recapitalization exchange, merger, etc.

Such contracts are on file with the SEC (via Edgar) and will be provided on request.

- Warrants (five groups) containing anti-dilution provisions (price protection) include:
  - Class A Warrants
  - Class A Placement Warrants
  - Class B Warrants
  - Class B Placement Agent Warrants
  - Common Stock Placement Agent Warrants
  - See Provisions relating to Price Protection (I and II)

- Securities with anti-dilution provisions (price protection) include the Series A Preferred issue.
  - See Provisions relating to Price Protection (III)
All stock amounts for derivative securities represent the maximum issuable if an entire class were exercised together, making no allowance for cancellation of fractional shares upon individual exercise. The 39,186 shares of Series A Convertible Preferred Stock outstanding and the warrants to purchase an additional 13,362 shares of Series A Convertible Preferred Stock are stated as if converted to common stock at the adjusted conversion price of $4.67 per share. The 12,875 non-voting shares of Series B Convertible Preferred Stock outstanding are stated as if converted to common stock at the reset conversion price of $3.52 per share.

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<th>Class</th>
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<tr>
<td>Placement Warrants (’99 offering)</td>
<td>114,073  exercise prices: $4.48 to $5.57</td>
<td></td>
</tr>
<tr>
<td>*Placement Warrants (Series A Conv. Prfd.)</td>
<td>286,145  effective exercise price: $5.137</td>
<td></td>
</tr>
<tr>
<td>*Class A Warrants</td>
<td>65,668  exercise price: $0.22</td>
<td></td>
</tr>
<tr>
<td>*Placement Agent Warrants (Class A)</td>
<td>20,737  exercise price: $0.22</td>
<td></td>
</tr>
<tr>
<td>*Class B Warrants</td>
<td>30,766  exercise price: $2.64</td>
<td></td>
</tr>
<tr>
<td>*Placement Agent Warrants (Class B)</td>
<td>2,334  exercise price: $5.43</td>
<td></td>
</tr>
<tr>
<td>Class C Warrants</td>
<td>69,124  exercise price: $8.68</td>
<td></td>
</tr>
</tbody>
</table>
Preferred stock and warrants with price protection. The conversion or exercise price of these securities will be adjusted downward if Palatin sells common or common-equivalent securities with a per share price less than the current conversion or exercise price (shown in the table). In the case of Series A preferred stock, the conversion price will also be adjusted downward if Palatin sells common or common-equivalent securities with a per share price less than the current market price of common stock.

All outstanding derivative securities have standard anti-dilution protection, preserving their proportional share of common stock in the event of stock dividends, stock splits, recapitalizations, merger, etc.
These five groups of warrants have identical provisions for price protection in the event of the issuance of Common Stock (including warrants and options) at a price per share less than the Per Share Warrant Price then in effect:

Section 3 (c)

(c) Except as provided in Subsections 3(a) and 3(d), in case the Company shall hereafter issue or sell any Common Stock, or any securities convertible into Common Stock or any rights, options or warrants to purchase Common Stock or securities convertible into Common Stock, in each case for a price per share or entitling the holders thereof to purchase Common Stock at a price per share (determined by dividing (i) the total amount, if any, received or receivable by the Company in consideration of the issuance or sale of such securities plus the total consideration, if any, payable to the Company upon exercise or conversion thereof (the "TOTAL CONSIDERATION") by (ii) the number of additional shares of Common Stock issuable upon exercise or conversion of such securities) less than the then current Per Share Warrant Price in effect on the date of such issuance or sale, the Per Share Warrant Price shall be adjusted as of the date of such issuance or sale so that the same shall equal the price determined by dividing (i) the sum of (A) the number of shares of Common Stock outstanding on the date of such issuance or sale multiplied by the Per Share Warrant Price plus (B) the Total Consideration by (ii) the number of shares of Common Stock outstanding on the date of such issuance or sale plus the maximum number of additional shares of Common Stock issuable upon exercise or conversion of such securities.

II. Selected Provisions of Financial Advisory Services (McInerney) Warrants

There are two outstanding Financial Advisory Services Warrants, which contain identical terms including the following provisions:

Section 3(c)

(c) Except as provided in subsections 3(a) and 3(d), in case the Company shall hereafter issue or sell any Common Stock, any securities convertible into Common Stock or any rights, options or warrants to purchase Common Stock or securities convertible into Common Stock, other than an offering of securities for which Paramount Capital, Inc. serves as placement agent initiated within 180 days following September 1, 1996 (the "Private Placement"), in each case for a price per share or entitling the holders thereof to purchase Common Stock at a price per share (determined by dividing (i) the total amount, if any, received or receivable by the Company in consideration of the issuance or sale of such securities plus the total
consideration, if any, payable to the Company upon exercise or conversion thereof (the “TOTAL CONSIDERATION”) by (ii) the number of additional shares of Common Stock issued, sold or issuable upon exercise or conversion of such securities) less than the then current Market Price of the Common Stock or the current Per Share Warrant Price in effect on the date of such issuance or sale, the Per Share Warrant Price shall be adjusted by multiplying the Per Share Warrant Price then in effect by a fraction, the numerator of which shall be (x) the sum of (A) the number of shares of Common Stock outstanding on the record date of such issuance or sale plus (B) the Total Consideration divided by either the current Market Price of the Common Stock or the current Per Share Warrant Price, whichever is greater, and the denominator of which shall be (y) the number of shares of Common Stock outstanding on the record date of such issuance or sale plus the maximum number of additional shares of Common Stock issued, sold or issuable upon exercise or conversion of such securities.

III. Selected Provisions of Series A Convertible Preferred Stock Certificate of Designations

Section 3 (b) (i) (selected portions):

"Market Price" of a security shall mean the average Closing Bid Price (as defined below) of such security, for twenty (20) consecutive trading days, ending with the day prior to the date as of which the Market Price is being determined.

The "Closing Bid Price" for any security for each trading day shall be the reported closing bid price of such security on the national securities exchange on which such security is listed or admitted to trading, or, if such security is not listed or admitted to trading on any national securities exchange, shall mean the reported closing bid price of such security on the Nasdaq SmallCap Market or the Nasdaq National Market System (collectively referred to as, "Nasdaq") or, if such security is not listed or admitted to trading on any national securities exchange or quoted on Nasdaq, shall mean the reported closing bid price of such security on the principal securities exchange on which such security is listed or admitted to trading (based on the aggregate dollar value of all securities listed or admitted to trading) or, if such security is not listed or admitted to trading on a national securities exchange, quoted on Nasdaq or listed or admitted to trading on any other securities exchange, shall mean the closing bid price in the over-the-counter market as furnished by any NASD member firm selected from time to time by the Corporation for that purpose.

"Trading day" shall mean a day on which the securities exchange or NASDAQ used to determine the Closing Bid Price is open for the transaction of business or the reporting of trades or, if the Closing Bid Price is not so determined, a day on which such securities exchange is open for the transaction of business.

Section 4 (c) (i):

(i) Except as otherwise provided herein, in the event the Corporation shall, at any time or from time to time after the date
hereof, (1) sell or issue any shares of Common Stock for a consideration per share less than either (i) the Conversion Price in effect on the date of such sale or issuance or (ii) the Market Price of the Common Stock as of the date of the sale or issuance, (2) issue any shares of Common Stock as a stock dividend to the holders of Common Stock, or (3) subdivide or combine the outstanding shares of Common Stock into a greater or lesser number of shares (any such sale, issuance, subdivision or combination being herein called a "Change of Shares"), then, and thereafter upon each further Change of Shares, the Conversion Price in effect immediately prior to such Change of Shares shall be changed to a price (rounded to the nearest cent) determined by multiplying the Conversion Price in effect immediately prior thereto by a fraction, the numerator of which shall be the sum of the number of shares of Common Stock outstanding immediately prior to the sale or issuance of such additional shares or such subdivision or combination and the number of shares of Common Stock which the aggregate consideration received (determined as provided in subsection 4(c)(v)(F) below) for the issuance of such additional shares would purchase at the greater of (i) the Conversion Price in effect on the date of such issuance or (ii) the Market Price as of such date, and the denominator of which shall be the number of shares of Common Stock outstanding immediately after the sale or issuance of such additional shares or such subdivision or combination. Such adjustment shall be made successively whenever such an issuance is made.

It should be noted that the foregoing provides price protection both for (i) issuances under the Conversion Price and (ii) issuances under the Market Price of the Common Stock.

For purposes of the foregoing, the Certificate of Designation further provides the following definition:

Section 4(c)(v):

(v) For purposes of Section 4(c)(i) hereof, the following provisions (A) to (F) shall also be applicable:

(A) The number of shares of Common Stock deemed outstanding at any given time shall include all shares of capital stock convertible into or exchangeable for Common Stock and all shares of Common Stock issuable upon the exercise of any convertible debt, warrants outstanding on the date thereof and options outstanding on the date thereof.

Accordingly, calculations are based on a fully-diluted number, including issuance of Common Stock on conversion of Series A Convertible Preferred Stock at the Conversion Price in effect prior to the recalculation.

EXHIBIT H

SUBORDINATED NON-NEGOTIABLE PROMISSORY NOTE

$2,000,000                 St. Louis, Missouri
May __, 1999
PALATIN TECHNOLOGIES, INC., a Delaware corporation (hereinafter called the "COMPANY"), for value received, hereby promises to pay to MALLINCKRODT INC., a Delaware corporation (hereinafter called "MALLINCKRODT") the principal sum of Two Million Dollars ($2,000,000), on the date specified herein below, and to pay simple interest from the date hereof on the unpaid principal amount hereof at the rate of 9% per annum, payable in full on the date when the principal amount hereof shall have become due and payable, whether at maturity or by acceleration or otherwise, and thereafter on demand at the rate of 12% per annum on any overdue principal amount and (to the extent permitted by applicable law) on any overdue interest until paid.

All payments of principal and interest on this Note shall be in such coin or currency of the United States of America as at the time of payment shall be legal tender for payment of public and private debts, and shall be made at the offices of MALLINCKRODT, 675 McDonnell Boulevard, P. O. Box 5840, St. Louis, Missouri 63134, or its successors or assigns, as applicable.

1. Events Requiring Payment. The principal hereunder and all interest accrued thereon shall be due and payable in full on the earliest to occur of either of the following dates or events: (i) the execution by MALLINCKRODT and COMPANY of a Strategic Collaboration Agreement relative to the development, manufacture, marketing and sale of LeuTech(R), a radiopharmaceutical imaging product useful in imaging infection and inflammation, or (ii) December 31, 2000. In the event of the occurrence of the event set forth in clause (i) of the immediately preceding sentence, the principal and interest due hereunder will be paid by offset against amounts otherwise due and payable to COMPANY by MALLINCKRODT as a consequence of the execution of said Strategic Collaboration Agreement.

2. Security for Repayment. Repayment of this Note shall be secured by an interest in substantially all of the assets of COMPANY ("Secured Assets"), as more fully described in and in accordance with the terms of that certain Security Agreement between MALLINCKRODT and COMPANY attached hereto as Exhibit I and expressly made a part hereof (the "Security Agreement"). COMPANY affirms and MALLINCKRODT understands that the lien securing the repayment obligations under this Note shall be secondary in priority and subordinate to any security interest held by any banks, lenders, or other financial institutions (collectively "Banks") to whom the COMPANY has granted any security interest or other lien on or prior to the date hereof, and in accordance with the terms and conditions specifically governing such security interest or other liens as such terms and conditions exist on and as of the date hereof.

3. Loss, Theft, Destruction or Mutilation of Note. Upon receipt of evidence reasonably satisfactory to the COMPANY of the loss, theft, destruction or mutilation of this Note, and, in the case of any such loss, theft or destruction, upon receipt of an affidavit of loss and indemnity from MALLINCKRODT reasonably satisfactory to the COMPANY, or, in the case of any such mutilation, upon surrender and cancellation of this Note, the COMPANY will make and deliver, in lieu of this Note, a new Note of like tenor and unpaid principal amount and dated as of the original date hereof.

4. Prepayment. Upon notice given to MALLINCKRODT the COMPANY may, at its option, prepay the Note, as a whole at any time or in part from time to time together with interest accrued thereon to the date of such prepayment. Upon any prepayment of a portion of the principal amount of this Note,
MALLINCKRODT, at its option, may require the COMPANY to execute and deliver at the expense of the COMPANY, upon surrender of this Note, a new Note for the principal amount of this Note then remaining unpaid, or may present this Note to the COMPANY for notation hereon of the payment of the portion of the principal amount of this Note so prepaid.

5. Covenants. The COMPANY covenants and agrees that, so long as any Note shall be outstanding:

(a) The COMPANY will promptly pay and discharge or cause to be paid and discharged, before the same shall become in default, all lawful taxes and assessments imposed upon the COMPANY or any subsidiary or upon the income and profits of the COMPANY or any subsidiary, or upon any property, real, personal or mixed, belonging to the COMPANY or any subsidiary, or upon any part thereof by the United States or any State thereof, as well as all lawful claims for labor, materials and supplies which, if unpaid, would become a lien or charge upon the Secured Assets thereof; provided, however, that neither the COMPANY nor any subsidiary shall be required to pay and discharge or to cause to be paid and discharged any such tax, assessment, charge, levy or claim so long as the COMPANY or its subsidiary (as appropriate) shall be contesting the validity thereof in good faith by appropriate proceedings or the COMPANY shall, in its good faith judgment, deem the validity thereof to be questionable.

(b) The COMPANY will at all times maintain and keep, or cause to be maintained and kept, in good repair, working order and condition (reasonable wear and tear excepted) all significant properties of the COMPANY and its subsidiaries which are included in the Secured Assets (including maintenance of fees for filing or registration due and payable with respect to any intellectual property rights included in the Secured Assets) and will from time to time make or cause to be made all reasonably necessary and proper repairs, renewals, replacements, betterments and improvements thereto.

(c) The COMPANY will keep adequately insured, and will cause each of its subsidiaries to keep adequately insured, by financially sound and reputable insurers, all property included in the Secured Assets of a character usually insured by corporations engaged in the same or a similar business similarly situated against loss or damage of the kinds customarily insured against by such corporations.

(d) The COMPANY will at all times keep, and cause each of its subsidiaries to keep, proper books of record and account in which proper entries will be made of its transactions in accordance with generally accepted accounting principles consistently applied.

(e) The COMPANY will do or cause to be done all things necessary and lawful to preserve and keep in full force and effect its corporate existence, rights and franchises and the corporate existence, rights and franchises of each of its operating subsidiaries; provided, however, that nothing in this paragraph (e) shall prevent (i) a consolidation or merger of, or a sale, transfer or disposition of all or any substantial part of the property and assets of the COMPANY not prohibited by the provisions of paragraph (f) below, or (ii) the abandonment or termination of any rights or franchises of the COMPANY, or the liquidation or dissolution of, or a sale, transfer or disposition (whether through merger, consolidation, sale or otherwise) of all or any substantial part of the property and assets of any subsidiary or the
abandonment or termination of the corporate existence, rights and franchises of any subsidiary if such abandonment, termination, liquidation, dissolution, sale, transfer or disposition is, in the good faith business judgment of the COMPANY, in the best interests of the COMPANY and does not prejudice MALLINCKRODT in any material respect.

(f) The COMPANY will not consolidate or merge with or into, or sell or otherwise dispose of all or substantially all of its property to, any other corporation or other entity, unless:

(i) the surviving corporation or other entity (if other than the COMPANY) shall expressly and effectively assume in writing the due and punctual payment of the principal of and interest on the Note, and the due and punctual performance and observation of all the terms, covenants, agreements and conditions of this Note and the Security Agreement to be performed or observed by the COMPANY to the same extent as if such surviving corporation had been the original maker of the Note,

(ii) the COMPANY or such other corporation or other entity shall not otherwise be in default in the performance or observance of any material covenant, agreement or condition of the Note or of the Security Agreement, and

(iii) MALLINCKRODT shall have received, in connection therewith, immediately prior to the closing of such transaction an opinion of counsel for the COMPANY (or other counsel satisfactory to MALLINCKRODT), in form and substance satisfactory to MALLINCKRODT, to the effect that any such consolidation, merger, sale or conveyance and any such assumption complies with the provisions of this paragraph (f).

6. Events of Default. If any one or more of the following events, herein called "Events of Default," shall occur, for any reason whatsoever, and whether such occurrence shall, on the part of the COMPANY or any subsidiary, be voluntary or involuntary or come about or be effected by operation of law or pursuant to or in compliance with any judgment, decree or order of a court of competent jurisdiction or any order, rule or regulation of any administrative or other governmental authority, and such Event of Default shall be continuing:

(a) default shall be made in the payment of the principal or interest of this Note when and as the same shall become due and payable in accordance with the terms provided herein, or

(b) default shall be made in the due observance or performance of any other covenant, representation, warranty, condition or agreement on the part of the COMPANY to be observed or performed pursuant to the terms hereof or pursuant to the Security Agreement and such default shall continue for thirty (30) days after receipt of written notice thereof, specifying such default and requesting that the same be remedied, by the COMPANY from MALLINCKRODT, or

(c) the entry of a decree or order for relief by a court having jurisdiction in respect of the COMPANY or any subsidiary in any involuntary case under the federal bankruptcy laws, as now constituted or
hereafter amended, or any other applicable federal or state bankruptcy, 
insolvency or other similar laws, or appointing a receiver, liquidator, 
assignee, custodian, trustee, sequestrator (or similar official) of the COMPANY 
or any subsidiary or for any substantial part of any of their property, or for 
all or any portion of the Secured Assets, or ordering the winding-up or 
liquidation of any of their affairs and the continuance of any such decree or 
order unstayed and in effect for a period of sixty (60) days, or

(d) the commencement by the COMPANY or any subsidiary of a 
voluntary case under the federal bankruptcy laws, as now constituted or 
hereafter amended, or any other applicable federal or state bankruptcy, 
insolvency or other similar laws, or the consent by any of them to the 
appointment of or taking possession by a receiver, liquidator, assignee, 
trustee, custodian, sequestrator (or other similar official) of the COMPANY or 
any subsidiary or for any substantial part of their property, or for all or any 
portion of the Secured Assets, or the making by any of them of any assignment 
for the benefit of creditors, or

(e) any default, as defined in any instrument evidencing or 
under which the COMPANY or any subsidiary has outstanding at the time any 
debt owed for money borrowed in excess of $50,000 in aggregate principal 
amount, shall occur,

then, MALLINCKRODT may, at its option, by notice to the COMPANY, declare this 
Note to be, and this Note shall thereupon be and become, forthwith due and 
payable together with interest accrued thereon without presentment, demand, 
protest or further notice of any kind, all of which are expressly waived to the 
extent permitted by law.

7. Suits for Enforcement. In case any one or more of the 
Events of Default specified in Section 6 of this Note shall occur and be 
continuing, MALLINCKRODT may proceed to protect and enforce its rights by suit 
in equity, action at law and/or by other appropriate proceeding, whether for the 
specific performance of any covenant or agreement contained in this Note or in 
aid of the exercise of any power granted in this Note, or may proceed to enforce 
the payment of this Note or to enforce any other legal or equitable right 
hereunder.

In case of any default under this Note, the COMPANY will pay 
to MALLINCKRODT such amounts as shall be sufficient to cover the costs and 
expenses of MALLINCKRODT directly attributable to said default, including, 
without limitation, collection costs and reasonable attorneys' fees, to the 
extent actually incurred.

8. Remedies Cumulative. No remedy herein conferred upon 
MALLINCKRODT is intended to be exclusive of any other remedy and each and every 
such remedy shall be cumulative and shall be in addition to every other remedy 
given hereunder or now or hereafter existing at law on in equity or by statute 
or otherwise.

9. No Waiver. No course of dealing between the COMPANY and 
MALLINCKRODT or any delay on the part of MALLINCKRODT in exercising any rights 
hereunder shall operate as a waiver of any of its rights hereunder. No failure 
by MALLINCKRODT on any occasion to exercise any rights or remedies it may have 
hereunder shall prejudice or operate as a waiver of any rights. MALLINCKRODT may 
have on any subsequent occasion to enforce its rights or take advantage of its
remedies pursuant to this Note.

10. Subordination.

(a) Anything in this Note to the contrary notwithstanding, the obligation of the COMPANY to pay the principal of and interest on this Note, and to discharge all its other obligations hereunder or under the Security Agreement, shall be subordinate and junior in right of payment to any indebtedness of COMPANY to Banks that is outstanding on and as of the date hereof. The obligations of the COMPANY to which this Note is subordinate and junior in the right of payment in accordance with said Subordination Agreement are sometimes herein referred to as "Senior Debt." MALLINCKRODT hereby acknowledges that the Senior Debt includes,

without limitation, debt under a patent assignment and license agreement with Aberlyn Capital Management Limited Partnership dated as of July 15, 1993.

(b) Subject to the payment in full of all Senior Debt, MALLINCKRODT shall be subrogated to the rights of the holders of Senior Debt to receive payments or distributions of any kind or character, whether in cash, property, stock or obligations (including any delivery of the Secured Assets), which may be payable or deliverable to the holders of Senior Debt. Subject to the rights of the holders of the Senior Debt, in accordance with the terms of any agreements between any of such holders and COMPANY, to receive cash, property, stock or obligations otherwise payable or deliverable to the holder of this Note, nothing herein shall either impair, as between the COMPANY and MALLINCKRODT, the obligation of the COMPANY, which is unconditional and absolute, to pay MALLINCKRODT the principal hereof and interest hereon in accordance with the terms and the provisions of this Note or prevent MALLINCKRODT from exercising all remedies otherwise permitted by applicable law or upon default hereunder. In addition, nothing set forth herein shall be construed as having any effect or purpose to limit or change in any manner any rights or remedies MALLINCKRODT may have under any other agreement between MALLINCKRODT and the COMPANY, whether currently in effect or entered into hereafter.

11. Successors and Assigns. All the covenants, stipulations, promises and agreements in this Note contained by or on behalf of the COMPANY shall bind its successors and assigns, whether so expressed or not.

12. Governing Law. This Note shall be enforced and construed in accordance with the laws of the State of New York, without giving effect to its conflict of laws principles.

13. Headings. The headings of the Sections and paragraphs of this Note are inserted for convenience only and do not constitute a part of this Note.

14. Validity. The execution and delivery of this Note and the Security Agreement and the performance by the COMPANY of its obligations hereunder have been duly authorized by all requisite corporate action by the COMPANY and will not violate any provisions of law, any of the corporate governing documents of the COMPANY or any provisions of any indenture, agreement or other instrument to which COMPANY or any of its assets is bound. This Note has been duly executed and delivered by the COMPANY and constitutes the legal, valid and binding obligation of the COMPANY, enforceable against the
COMPANY in accordance with its terms. The execution and delivery of this Note and the performance by the COMPANY of its obligations hereunder and under the Security Agreement does not and will not violate any judicial decree or order.

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IN WITNESS WHEREOF, PALATIN TECHNOLOGIES, INC. has caused this Note to be signed in its corporate name by one of its officers thereunto duly authorized and to be dated as of the date and year first above written.

PALATIN TECHNOLOGIES, INC.

By: __________________________

Name: __________________________
Title: __________________________

EXHIBIT I

SECURITY AGREEMENT

THIS SECURITY AGREEMENT (the "Security Agreement") is entered into as of May __, 1999, by and among Palatin Technologies, Inc., a Delaware corporation, with its principal executive offices in Princeton, New Jersey (the "Debtor"), and Mallinckrodt Inc., a Delaware corporation, with its principal offices in St. Louis, Missouri (the "Secured Party").

WHEREAS, on and as of the date hereof, the Debtor has executed and delivered to Secured Party a certain Subordinated Non-Negotiable Promissory Note in the original principal amount of Two Million Dollars ($2,000,000) (such promissory note, and any and all amendments, modifications, extensions, restatements, renewals, refinancings and/or replacements thereof from time to time being herein referred to as the "Note");

WHEREAS, the indebtedness evidenced by the Note will be secured as provided in Section 2 thereof and as consistently hereinafter provided; and

WHEREAS, Debtor, in consideration of and in order to induce Secured Party to make the advance of Two Million Dollars ($2,000,000) has determined that it is in the best interest of Debtor and has agreed to execute, deliver and perform this Security Agreement;

NOW, THEREFORE, for valuable consideration, the sufficiency and receipt of which are hereby acknowledged, the Debtor and the Secured Party hereby agree as follows:

1. Definitions. As used in this Security Agreement, the
following terms, which are in addition to terms defined elsewhere in this Security Agreement, shall have the respective meanings as listed below:

“Accounts” shall mean (i) any right to payment for services rendered and/or for goods sold or leased, now or hereafter owing to or held by Debtor, whether such right to payment be classified by law as an instrument, chattel paper, contract right, account, general intangible or otherwise, (ii) the security, if any, for such right to payment, (iii) Debtor’s right, title and interest (including, without limitation, any applicable right of reclamation or stoppage in transit) in or to the personal property, if any, that is the subject of such right to payment, and (iv) all books, ledgers and records pertaining to such right to payment (whether written or electronic), all whether now owned or hereafter acquired by Debtor.

“Deposit Accounts” means any and all accounts, deposits, investments, monies, securities or other property of Debtor.

“Equipment” shall mean all machinery, computer hardware and software, equipment, appliances, furniture, fixtures, tools, supplies and tangible personal property (except Inventory) of every kind and description, including but not limited to, property included within the term “Equipment” as defined in the UCC, now owned or hereafter acquired by Debtor.

“General Intangibles” shall mean all property (other than Accounts, Equipment, Inventory, and Deposit Accounts) including, but not limited to, all rights in patents, patent applications, trademarks and other intellectual property, choses in action, contract rights, tax refunds, rights in respect of employee benefit plan assets, trademarks, trade names, licenses, consents, permits, marketing agreements, copyrights, customer lists, identification of suppliers, data, plans, specifications, recorded knowledge, manuals, standards, catalogs, books, records, sales data and other information relating to sales, certifications and approvals of governmental agencies pertaining to Debtor’s operations or business, all rights of Debtor to receive return of deposits and trust payments, all judgments, awards and warehouse receipts, in each case whether now owned or hereafter acquired by Debtor and whether now existing or hereafter arising.

“Inventory” shall mean all merchandise, finished goods, raw materials, work in process, packaging, supplies, all types of property of Debtor included within the term “Inventory” as defined in the UCC and other tangible personal property held for sale or lease or furnished or to be furnished under contracts of service or used or consumed in Debtor’s business, wherever located, whether now owned or hereafter acquired by Debtor (including, without limitation, goods which are returned to or repossessed by Debtor) and whether now existing or hereafter arising.

“Secured Assets” shall mean and include all property and interests therein of every kind and description (tangible or intangible, real, personal or mixed), wherever located, now owned or hereafter acquired by the Debtor and whether now existing or hereafter arising, including, without limitation, (i) all Accounts, (ii) all Equipment, (iii) all Inventory, (iv) all General Intangibles, (v) all Deposit Accounts, (vi) all accessions to and products of any of the foregoing, (vii) all additions to, or substitutions or replacements for any of the foregoing, (viii) all proceeds of, or from, any of the foregoing, (including insurance proceeds, whether or not the Secured Party is the loss payee thereunder), and (ix) in all cases, whether now owned or
“UCC” shall mean the Uniform Commercial Code as amended from time to time, and any successor statute, enacted and in effect at any time in the State of New York.

2. Definitions Incorporated. The following terms as used herein have the meanings given to them in the Note: “Banks,” “Event of Default,” and “Senior Debt.” In the event that the Note is from time to time amended or modified or any instrument is substituted in replacement thereof, such amendment, modification or substitution shall, from and after the date thereof, be included within the definition of the “Note” as used herein. Terms used herein, if not otherwise defined herein, shall have the meanings given them in the UCC as enacted and as from time to time in effect in New York.

3. Security Interest. The Debtor, and its successors and assigns, hereby give and grant to the Secured Party a security interest in all the Secured Assets and all of their right, title and interest therein, whether now owned or existing or hereafter acquired or arising, together with all proceeds therefrom to secure (i) the payment of all principal of and interest heretofore or hereafter owing or outstanding on the Note (including any notes substituted therefor), (ii) the payment by the Debtor of all costs and expenses (including reasonable attorneys’ fees) incurred by the Secured Party in the collection of amounts due under the Note or in enforcing its rights under the Note or this Security Agreement and (iii) the performance by the Debtor of all its obligations under the Note or this Security Agreement. The foregoing set forth in clauses (i), (ii) and (iii) of the previous sentence shall hereinafter be referred to as the “Obligations.” Anything in this Security Agreement to the contrary notwithstanding, the Obligations are subordinate and junior in right of payment to any rights of the Senior Debt, as those rights may appear and exist on and as of the date hereof.

4. Debtor Remains Liable. Anything herein to the contrary notwithstanding, (i) Debtor shall remain liable under all contracts and agreements included in the Secured Assets to the extent set forth therein to perform all of its duties and obligations thereunder to the same extent as if this Security Agreement had not been executed, (ii) the exercise by the Secured Party of any of its rights hereunder shall not release Debtor from any of its duties or obligations under the contracts and agreements included in the Secured Assets, and (iii) the Secured Party shall not have any obligation or liability under the contracts and agreements included in the Secured Assets or be obligated to perform any of the obligations or duties of Debtor thereunder or to take any action to collect or enforce any claim for payment assigned hereunder.

5. Accounts. Subject to the rights of holders of the Senior Debt as described in Section 10 of the Note, with respect to Accounts included within the Secured Assets, Debtor covenants and agrees as follows:

(a) Subject to the rights of holders of the Senior Debt as described in Section 10 of the Note, the Debtor shall, after the occurrence and during the continuance of an Event of Default which remains uncured (if by the express
terms of the Note it may be cured), at the request of the Secured Party, execute and deliver a form of agreement satisfactory to the Secured Party and its counsel, establishing a lock box and cash collateral arrangement with the Secured Party.

(b) In the event a government (including the United States Government, the government of any state or any local government) or any department, agency, instrumentality or subdivision thereof is an account debtor or obligor on any Accounts or is a party to any contract or order out of which will arise an Account, the Debtor shall promptly notify the Secured Party of that fact and will execute such instruments and take such steps required by the Secured Party in order that the Account and all moneys due to the Secured Party and due notice thereof is given to the appropriate governmental official.

(c) After an Event of Default and the repayment in full of the Senior Debt and the termination of any agreements relating thereto, the Secured Party shall have the right from time to time to arrange for verification of all Accounts directly with the account debtors or by other methods reasonably satisfactory to the Secured Party. Any such verification shall be conducted in such a manner as to prevent (where possible) or minimize disruption to Debtor’s business.

(d) In the event any Accounts are evidenced by chattel paper or other negotiable instruments, the Debtor shall, after the occurrence and during the continuance of an Event of Default and subject to the Senior Debt, deliver the same to the Secured Party (with all requisite endorsements, in favor of the Secured Party, which the Secured Party may make as attorney-in-fact for the Debtor) as soon as possible and prior to such delivery shall hold (subject to the Senior Debt) the same in trust for the benefit of the Secured Party.

(e) Except as otherwise provided in this subsection, the Debtor shall use its commercially reasonable best efforts to collect, at its own expense, all amounts due or to become due on the Accounts. After the occurrence and continuance of an Event of Default, the Secured Party shall have the right at any time, subject to the Senior Debt, upon written notice to the Debtor, at the expense of the Debtor, to take such action to collect the Accounts as the Secured Party deems proper, including, without limitation, the right to notify account debtors to remit all payments to the Secured Party and to adjust, settle and compromise payment thereof, in the same manner and to the same extent as the Debtor might have done. At such time as the Secured Party is entitled to exercise and in fact exercises its rights pursuant to the preceding sentence, the Debtor shall not take any action to collect, adjust, settle or compromise any Account except with the written consent of the Secured Party and any collections of Accounts received or held by the Debtor shall be

property of the Secured Party, shall be held in trust for the benefit of the Secured Party and shall be delivered to the Secured Party.
immediately with all requisite endorsements in favor of the Secured Party which the Secured Party may make as attorney-in-fact for the Debtor. The Secured Party does not have any obligation to the Debtor to collect or attempt to collect any Accounts or to preserve any rights against any party in connection therewith.

(f) Debtor shall upon reasonable request by the Secured Party and immediately after the occurrence of an Event of Default give the Secured Party notice of all of the Deposit Accounts.

6. Inventory. So long as no Event of Default exists, Debtor may sell the Inventory in the ordinary course of business on customary business and payment terms, but no sale in bulk shall be permitted without the prior written consent of the Secured Party.

7. Equipment--Possession. Debtor is entitled to the possession of its Equipment and to use the same in connection with its business, subject to the rights of the Secured Party hereunder upon the occurrence and continuance of an Event of Default.

8. Records. Debtor will at all times keep accurate and complete records of its Accounts, Deposit Accounts, Inventory, General Intangibles, Equipment and other items included in the Secured Assets, and the Secured Party shall have the right at all reasonable times, without disruption to the business of the Debtor, to examine and inspect the same and to make copies thereof.

9. Representations, Warranties and Covenants of the Debtor. With respect to the Secured Assets, Debtor hereby represents, warrants and covenants to the Secured Party as follows:

(a) Debtor is, and will be, the sole owner of all Accounts now or hereafter appearing on the books of Debtor, and that the same are and will be, during the term of this Security Agreement, free and clear from any and all assignments, liens, and security interests except for the security interests of the holders of the Senior Debt and except as created hereby.

(b) All Accounts as shown on the books of Debtor or as shown in any certificate, statement or other report, delivered by the Debtor to the Secured Party, shall represent valid and existing obligations of the account debtors (except as consistent with past practice and experience of the Debtor) representing goods or services delivered or performed, and invoiced, and which are not subject to any defense, counterclaim or right of setoff unless otherwise stated on such certificate, statement, or other report.

(c) Debtor is and, during the term of this Security Agreement, will be the owner of each item of the Secured Assets; the same will be used solely in connection with the Debtor’s business; all of the Equipment, Inventory and General Intangibles are free and clear of all liens and encumbrances whatsoever, except as otherwise provided herein and except for the security interests of the holders of the Senior Debt.
(d) Debtor will execute all financing statements and amendments and supplements thereto, if any, and will attend to the filing of any and all continuation statements, as may be reasonably requested by the Secured Party in order to continue the validity of the security interests of the Secured Party hereunder.

(e) Debtor shall, from time to time as requested by the Secured Party, take such action and execute and deliver to the Secured Party all such instruments, supplements, further assurances and security or other agreements as may be required or reasonably requested by the Secured Party in order to perfect and continue the Secured Party's security interest in the Secured Assets hereunder.

(f) Debtor agrees to pay, and to save the Secured Party harmless from, any and all liabilities, costs and expenses (including, without limitation, reasonable legal fees and expenses) except those caused by willful misconduct or gross negligence of the Secured Party (i) with respect to, or resulting from, any delay in paying, any and all excise, sales or other taxes which may be payable or determined to be payable with respect to any of the Secured Assets, and (ii) in connection with any of the transactions contemplated by this Security Agreement.

(g) Debtor will not create, incur or permit to exist, and it will defend the Secured Assets against, and it will take such other action as is necessary to remove, any lien or claim on or to the Secured Assets, other than the liens created hereby and the liens created pursuant to the Senior Debt, and it will defend the right, title and interest of the Secured Party in and to any of the Secured Assets against the claims and demands of all persons whomsoever, except for any claims and demands of the Senior Debt.

(h) Debtor will not sell, transfer, lease or otherwise dispose of any of the Secured Assets, except for sales of Inventory by Debtor in the ordinary course of its business.

(i) Debtor has the power to execute and deliver this Security Agreement and to perform its obligations hereunder and has taken all necessary action and has received all required consents (private and governmental) to authorize such execution, delivery and performance, and therefore this Security Agreement constitutes the legal, valid and binding obligation of the Debtor, enforceable against it and the Secured Assets in accordance with its terms. Furthermore, to the best of Debtor's knowledge, this Security Agreement does not and will not violate any judicial decree or order, or any rules or regulations of any federal, state or local government, or any branch, agency or instrumentality of same.

(j) The execution, performance and delivery of this Security Agreement does not violate or conflict with the terms or provisions of, or the Debtor's performance under, any agreement, document or instrument by which the Debtor is bound.

10. Secured Party's Duties. The powers conferred on the Secured Party hereunder are solely to protect its interest in the Secured Assets
and shall not impose any duty upon it to exercise any such powers. Secured Party shall have no obligation to preserve rights against prior parties.

11. Default Remedies. Except as expressly and unambiguously set forth herein, this Security Agreement shall be deemed absolute and without conditions and, subject to the rights of the Senior Debt, the Secured Party may enforce its rights with respect to the Secured Assets without first being required to attempt collection of any sums due from the Debtor. If an Event of Default shall occur and remain uncured (if it is curable by the express terms of the Note) for thirty (30) days after receipt of notice thereof by Debtor from the Secured Party, the Secured Party shall have the following rights (subject only to Section 10 of the Note and the rights of the holders of the Senior Debt generally):

(a) to perform any defaulted covenant or agreement of this Security Agreement to such extent as the Secured Party shall reasonably determine and advance such moneys as it shall deem reasonably advisable for the aforesaid purpose and all moneys so advanced, together with interest thereon from the date advanced until paid at a rate per annum equal to the rate then in effect on the Note, shall be secured hereby and shall be repaid promptly after notice of the amount due without demand, provided, however, that nothing herein contained shall be construed to require the Secured Party to advance money for any of the aforesaid purposes;

(b) to notify all account debtors, to the extent permitted by applicable law or regulations, to pay directly to the Secured Party or otherwise as the Secured Party may specify all amounts they owe then or thereafter to Debtor;

(c) to take control of any and all proceeds to which the Secured Party may be entitled under this Security Agreement, the Note, or under any applicable laws;

(d) to take immediate possession of the Secured Assets and, with or without taking possession of the Secured Assets, to sell, lease or otherwise dispose of any or all of the Secured Assets, either at public or private sale, upon commercially reasonable terms, and the Secured Party may become the purchaser thereof at public sale; provided that, any sale may be adjourned at any time and from time to time to a reasonably specified time and place by announcement at the time and place of sale as publication or otherwise of the time and place of such adjourned sale; provided further that, subject to the Senior Debt, the proceeds of any sale shall be applied (i) first to the expenses of taking, holding and preparing for sale or disposition, and sale or disposition and the like (including reasonable attorneys' fees), (ii) next to the principal and interest due under the Note and the other amounts secured under clauses (i) and (ii) of Section 3 hereof, (iii) next to amounts secured under clause (iii) of Section 3 hereof, (iv) next to the holder of any subordinate security interest therein if written notification of demand therefor is received and verified by the Debtor before distribution of the proceeds and (v) lastly, any surplus to Debtor and Debtor shall remain liable for any deficiency; and provided further that, any such sale, public or private, may be made on credit at the option of the Secured Party; and provided finally that,
the Secured Party shall have the right to conduct any such sale on Debtor's premises, and the Secured Party shall have such right of possession of said premises as shall be necessary or convenient for such purpose but the Secured Party shall make every reasonable effort to avoid (where possible) or minimize disruption of Debtor's business activities in so doing;

(e) to take immediate possession of the Secured Assets and to use or operate the Secured Assets in order to preserve the same or their value, and collect, receive and use all of the net profits from such use or operation to pay indebtedness secured by such Secured Assets;

(f) to require Debtor, to the extent practicable, to assemble the Secured Assets and make them available to the Secured Party at such locations within the county wherein such Secured Assets are located as the Secured Party shall designate;

(g) to enter all of the Debtor's facilities to remove the Secured Assets therefrom and take possession of the Debtor's books and records and computer hardware and software, and to use all of the same in a manner the Secured Party deems appropriate in order to preserve and sell or otherwise dispose of the Secured Assets;

(h) to (without assuming any obligations or liability thereunder), at any time and from time to time, enforce against any licensee or sublicensee all rights and remedies of the Debtor in, to and under any patent licenses or trademark licenses included in the General Intangibles and, in the exercise of commercial reasonableness, take or refrain from taking any action under any such licenses, and the Debtor hereby releases the Secured Party free and harmless from and against any claims arising out of, any lawful action so taken or omitted to be taken under applicable law with respect thereto;

(i) to proceed to protect and enforce its rights under the Note and this Security Agreement by a suit or suits in equity or at law, whether for specific performance or observance of any terms, provisions, covenants or conditions herein or therein contained, in aid of the execution of any power herein or therein granted, for any foreclosure hereunder or thereunder, or for the enforcement of any other proper legal or equitable remedy;

(j) to exercise any such additional and/or different rights or remedies as are provided for in the Note; and

(k) to act as true and lawful attorney-in-fact of the Debtor, with full power of substitution, with full irrevocable power and authority in the place and stead of the Debtor, in the name of the Debtor, or in its own name, for the purpose of carrying out the terms of this Security Agreement, to take any and all appropriate action and to execute any and all documents and instruments which may be reasonably necessary or desirable to accomplish the purposes of this Security Agreement.
The Secured Party shall have any and all other rights and remedies provided by law or equity, including, without limitation, the rights and remedies of a secured party. All of the Secured Party’s rights and remedies will be cumulative, and no waiver of any default will affect any other subsequent default. The rights and remedies provided in this Security Agreement are cumulative, may be exercised concurrently or separately, may be exercised from time to time and in such order, without any marshalling, as the Secured Party shall determine.

Subject to the Senior Debt, nothing herein contained shall be construed as preventing the Secured Party from taking all reasonable and lawful actions to protect its interest in the event that liquidation, insolvency, bankruptcy, reorganization or foreclosure proceedings of any nature whatsoever affecting the property or assets of Debtor should be instituted.

The Secured Party's sole duty with respect to the custody, safekeeping and physical preservation of the Secured Assets in its possession, shall be to deal with it in the same manner as the Secured Party deals with similar property for its own account. Neither the Secured Party, nor any of its respective directors, officers, employees or agents shall be liable for failure to demand, collect or realize upon all or any part of the Secured Assets or for any delay in doing so or shall be under any obligation to sell or otherwise dispose of any Secured Assets upon the request of the Debtor or otherwise.

12. General Provisions. (a) This Security Agreement and the security interests of the Secured Party in the Secured Assets created hereby shall cease and terminate only upon repayment in full of the principal and any accrued interest under and pursuant to the Note or upon cancellation of the Note by Secured Party.

(b) Debtor hereby waives all demands, notices, presentments, claims, defenses and protests of any kind, except as expressly and unambiguously provided herein and unless not permitted by applicable law, which might in any manner adversely affect the rights of Secured Party herein.

(c) Except where the application of another law is mandatory, this Security Agreement shall be construed to be a contract made under and pursuant to the laws of New York, and all of the terms, covenants and conditions contained herein shall be governed by and construed in accordance with such laws, without giving effect to the conflict of laws principles contained in such laws.

(d) This Security Agreement, all supplements hereto and all amendments hereto, shall inure to the benefit of and be binding upon the Debtor, the Secured Party, and their respective successors and assigns, but this Security Agreement may not be assigned by Debtor without the written consent of the Secured Party.

(e) No waiver of any term, provision, covenant or condition contained in this Security Agreement, or of any breach of any such term, provision, covenant or condition, shall constitute a waiver of
any subsequent breach or justify or authorize the non-observance on any other occasion of such term, provision, covenant or condition contained in this Security Agreement.

(f) The invalidity or unenforceability of any term or condition hereof shall not affect the validity or enforceability of any other term or condition hereof or of this Security Agreement as a whole.

(g) In the event of any conflict or inconsistency between the terms of the Note and those of this Security Agreement, the former shall prevail.

IN WITNESS WHEREOF, the parties have caused this Security Agreement to be executed in St. Louis, Missouri at the time first above written by their officers thereunto duly authorized.

MALLINCKRODT INC.  
("SECURED PARTY")

By:__________________________

PALATIN TECHNOLOGIES, INC.  
("DEBTOR")

By:__________________________

EX-21
6  
SUBSIDIARIES OF THE REGISTRANT

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<th>Name of subsidiary</th>
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<td>Interfilm Technologies, Inc.</td>
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CONSENT OF INDEPENDENT PUBLIC ACCOUNTANTS

As independent public accountants, we hereby consent to the incorporation of our report included in this Form 10-KSB, into the Company's previously filed registration statement file nos. 333-57059, 333-56605, 333-33569, 333-72873 and 333-84421.

Arthur Andersen LLP

September 28, 1999

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This schedule contains summary financial information extracted from the registrant’s audited consolidated financial statements for the fiscal year ended June 30, 1999 and is qualified in its entirety by reference to such financial statements.

U.S. Dollars

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--------- END PRIVACY-ENHANCED MESSAGE ---------