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

FORM 10-Q

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

For the quarterly period ended December 31, 2001

or

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

For the transition period from ________ to ________

Commission file number 0-22686

PALATIN TECHNOLOGIES, INC.  
(Exact name of registrant as specified in its charter)

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

103 Carnegie Center - Suite 200  
Princeton, New Jersey  
08540  
(Address of principal executive offices)  
(Zip Code)

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

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. 
Yes [X]  No [ ]
As of February 14, 2002, 16,161,487 shares of the issuer's common stock, par value $.01 per share, were outstanding.

PALATIN TECHNOLOGIES, INC.

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

<table>
<thead>
<tr>
<th></th>
<th>December 31, 2001</th>
<th>June 30, 2001</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 and cash equivalents</td>
<td>$15,023,906</td>
<td>$11,456,424</td>
</tr>
<tr>
<td>Prepaid expenses and other</td>
<td>535,493</td>
<td>204,731</td>
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<tr>
<td>Total current assets</td>
<td>15,559,399</td>
<td>11,661,155</td>
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<tr>
<td>Property and equipment, net</td>
<td>1,071,529</td>
<td>1,924,962</td>
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<tr>
<td>Restricted cash</td>
<td>613,075</td>
<td>613,075</td>
</tr>
<tr>
<td>Other</td>
<td>189,479</td>
<td>45,017</td>
</tr>
<tr>
<td><strong>Total Assets</strong></td>
<td>$17,433,482</td>
<td>$14,244,209</td>
</tr>
</tbody>
</table>

| **LIABILITIES AND STOCKHOLDERS' EQUITY** | | |
| Current liabilities: | | |
| Accounts payable | $1,990,079 | $1,129,660 |
| Accrued expenses | 285,630 | 397,119 |
| Deferred license revenue | 111,110 | 166,666 |
| Total current liabilities | 2,614,805 | 2,300,731 |
| Deferred license revenue | - | 27,778 |
| **Total Liabilities** | | |
| **Stockholders' Equity** | | |
| Preferred stock of $.01 par value - authorized 10,000,000 shares; Series A Convertible; 29,317 issued and outstanding | 293 | 293 |
| Series C Convertible; 700,000 shares issued and outstanding as of December 31, 2001 and June 30, 2001 respectively; | 7,000 | 7,000 |
| Issued and outstanding 16,106,389 and 11,199,658 shares as of December 31, 2001 and June 30, 2001 respectively; | 161,063 | 111,997 |
| Additional paid-in capital | 76,142,485 | 65,981,568 |
| Deferred compensation | (49,543) | (80,119) |
| Unrealized loss on investments | (554) | - |
| Deficit accumulated during development stage | (61,442,067) | (54,105,039) |
| **Total stockholders' equity** | 14,818,677 | 11,915,700 |

|                      | $17,433,482 | $14,244,209 |

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.
Inception (January 28, 1986)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>REVENUES:</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Grants and contracts</td>
<td>$ -</td>
<td>$ 664,793</td>
<td>$ -</td>
<td>$ 1,519,874</td>
<td>$ 9,543,165</td>
</tr>
<tr>
<td>License fees</td>
<td>41,667</td>
<td>41,667</td>
<td>83,334</td>
<td>83,334</td>
<td>1,984,297</td>
</tr>
<tr>
<td>Other</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>318,917</td>
<td></td>
</tr>
<tr>
<td><strong>Total revenues</strong></td>
<td>41,667</td>
<td>706,460</td>
<td>83,334</td>
<td>1,603,208</td>
<td>11,846,379</td>
</tr>
</tbody>
</table>

| OPERATING EXPENSES:          |               |               |               |               |                  |
| Research and development     | 3,040,151     | 2,249,522     | 4,931,397     | 4,705,118     | 47,787,685       |
| General and administrative   | 1,015,263     | 843,473       | 1,915,161     | 1,550,049     | 24,292,276       |
| Loss on impairment of assets | -             | 916,518       | -             | 916,518       |                  |
| Net intangibles write-down   | -             | -             | -             | 259,334       |                  |
| **Total operating expenses** | 4,055,414     | 3,092,995     | 7,763,076     | 6,255,167     | 73,255,813       |

| OTHER INCOME (EXPENSES):     |               |               |               |               |                  |
| Interest income              | 79,974        | 279,195       | 182,060       | 366,487       | 2,323,624        |
| Interest expense             | (678)         | (1,349)       | (1,356)       | (3,629)       | (1,957,309)      |
| Merger costs                 | -             | -             | -             | -             | (525,000)        |
| **Total other income (expenses)** | 79,296    | 277,846       | 180,704       | 362,858       | (158,684)        |

| Income tax benefit          | 162,010       | 325,152      | 162,010      | 325,152      | 487,162        |

| Loss before cumulative effect of accounting change | (3,772,441) | (1,783,537) | (7,330,288) | (3,963,949) | (61,080,956) |
| Cumulative effect of accounting change              | -            | -            | (361,111)   | (361,111)   |               |

| NET LOSS | (3,772,441) | (1,783,537) | (7,330,288) | (3,963,949) | (61,080,956) |
| PREFERRED STOCK DIVIDEND | (285,725) | - | (285,725) | - | (3,407,250) |

| NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS | $(4,058,166) | $(1,783,537) | $(7,622,753) | $(4,252,606) | $(64,489,312) |

| Basic and diluted net loss per common share: | | | | | |
| Basic and diluted net loss before cumulative effect of accounting change | $(0.31) | $(0.17) | $(0.63) | $(0.43) |
| Cumulative effect of accounting change | $(0.00) | $(0.00) | $(0.00) | $(0.00) |
| Basic and diluted net loss | $(0.31) | $(0.17) | $(0.63) | $(0.47) |

| Weighted average number of common shares outstanding used in computing basic and diluted net loss per common share | 13,013,547 | 10,366,170 | 12,106,579 | 9,210,971 |

The accompanying notes to the consolidated financial statements are an integral part of these financial statements.
CASH FLOWS FROM OPERATING ACTIVITIES:
Net loss $(7,337,028) $(4,325,060) $(61,442,067)
Adjustments to reconcile net loss to net cash used for operating activities:
Cumulative effect of accounting change - 361,111 361,111
Depreciation and amortization 155,316 141,326 1,529,172
License fee - 500,000
Interest expense on note payable - 72,691
Accrued interest on long-term financing - 796,038
Accrued interest on short-term financing - 7,936
Intangibles and equipment write down - 278,318
Common stock and notes payable issued for expenses - 751,038
Settlement with consultant - (28,731)
Loss on impairment of assets 916,518 916,518
Stock based compensation 30,576 109,375 3,641,492
Deferred compensation (83,334) (83,334) (250,001)
Changes in certain operating assets and liabilities:
Accounts receivable (434,917) -
Prepaid expenses and other 330,498 (1,665,660)
Accounts payable 861,191 1,990,979
Accrued expenses and other 39,483 51,550
Net cash used for operating activities (6,428,549) (3,654,204) (50,984,301)

CASH FLOWS FROM INVESTING ACTIVITIES:
Sales/(Purchases) of investments, net 368,616 -
Purchases of property and equipment (212,845) (33,741) (3,386,071)
Net cash provided/(used) for investing activities (212,845) 334,875 (3,386,071)

CASH FLOWS FROM FINANCING ACTIVITIES:
Proceeds from notes payable, related party - - 302,000
Payments on notes payable, related party - (302,000)
Proceeds from senior bridge notes payable - 1,850,000
Payments on senior bridge notes payable - 1,850,000
Proceeds from notes payable and long-term debt - 3,951,327
Payments on notes payable and long-term debt - 3,951,327
Proceeds from Common stock, stock option and warrant issuances, net 10,208,876 43,185,619
Proceeds from Preferred stock, net - 24,210,326
Purchase of treasury stock - (1,667)
Net cash provided by financing activities 10,208,876 14,965,300 69,394,278

NET INCREASE IN CASH AND CASH EQUIVALENTS 3,567,482 11,645,971 15,023,906

CASH AND CASH EQUIVALENTS, beginning of period 11,456,424 3,219,593 -

CASH AND CASH EQUIVALENTS, end of period $15,023,906 $14,865,564 $ 15,023,906

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

5
Organization Activities:

Nature of Business – Palatin Technologies, Inc. (â€œPalatinâ€œ or the â€œCompanyâ€œ) is a development-stage biopharmaceutical company. The Company is currently conducting clinical investigations with its lead drug, PT-141, for the treatment of erectile dysfunction, and is developing additional therapeutic compounds, discovered using its enabling peptide platform technology, MIDASâ„¢. Additionally, Palatin is developing a product for infection imaging, LeuTechÂ®, based on a proprietary radiolabeled monoclonal antibody.

Business Risk and Liquidity – As shown in the accompanying financial statements, the Company incurred substantial net losses of $7,337,028 for the six months ended December 31, 2001 and has a deficit accumulated during development stage of $61,442,067 as of December 31, 2001. The Company anticipates incurring additional losses in the future as it continues development of LeuTech for equivocal appendicitis and expands clinical trials for other indications of LeuTech and for PT-141, and continues research and development of PT-141 and its MIDAS technology. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, conduct pre-clinical studies and clinical trials, obtain required regulatory approvals and successfully manufacture and market such technologies and proposed products. The time required to reach profitability is highly uncertain, and there can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

In November 2001, the Company concluded a private placement of its common stock and warrants, which yielded gross proceeds of $11 million (see Note 5).

Management plans to continue to refine its operations, control expenses, evaluate alternative methods to conduct its business, and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements or other resources. Management believes that it will be able to fund the Companyâ€™s operations through calendar year 2002, based on current expenditure levels.

Basis of Presentation:

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnote disclosures required to be presented for complete financial statements. In the opinion of management, these financial statements contain all adjustments (consisting of only normal recurring adjustments) considered necessary to present fairly the financial position as of December 31, 2001 and the results of operations and cash flows for the three and six month periods ended December 31, 2001 and 2000 and for the period from inception (January 28, 1986) to December 31, 2001. The results of operations for the six month period ended December 31, 2001 may not necessarily be indicative of the results of operations expected for the full year, except that the Company expects to incur a significant loss for the fiscal year ended June 30, 2002.
The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto included in our annual report on Form 10-K, filed with the Securities and Exchange Commission, which includes financial statements as of June 30, 2001 and 2000 and for each of the three fiscal years in the period ended June 30, 2001.

(3) Summary of Significant Accounting Policies:

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

**Use of Estimates** "The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Statements of Cash Flows** "Cash and cash equivalents include cash on hand, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase. As of December 31, 2001 and June 30, 2001, approximately $613,000 of cash was restricted to secure letters of credit for security deposits on leases.

**Investments** "We account for investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting For Certain Investments in Debt and Equity Securities." We classify such investments as available for sale investments and as such all investments are recorded at fair value. Unrealized gains and losses are classified as a separate component of stockholder’s equity. As of December 31, 2001 the unrealized gain on investments was immaterial. Realized gains and losses are recorded in the statement of operations in the period that the transaction occurs.

**Property and Equipment** "Property and equipment consist of office and laboratory equipment, office furniture and leasehold improvements. Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of five years for equipment, seven 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 follows 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 our long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value. Fair value is determined by an evaluation of available price information at which assets could be bought or sold including quoted market prices, if available, or the present value of the estimated future discounted cash flows based on reasonable and supportable assumptions.

During 2001, the Company entered into an agreement to lease a new facility in Cranbury, New Jersey that will combine both the research and development facility in Edison, New Jersey
Revenue Recognition â€“ Grant and contract revenues are recognized as the Company provides the services stipulated in the underlying grants and/or contracts based on the time and materials incurred. In the fiscal year ended June 30, 2001, the Company adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101 â€œRevenue Recognition in Financial Statementsâ€ (â€œSAB 101â€). SAB 101 requires up front, non-refundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 resulted in a one-time non-cash charge of $361,000, or $0.04 per share during the three months ended September 30, 2000. For the three and six months ended December 31, 2001 and 2000, the Company recognized $41,667 and $83,334 of deferred license revenue respectively.

Research and Development Costs â€“ The costs of research and development activities are charged to expense as incurred.

Stock Options and Warrants â€“ Warrants and the majority of common stock options issued to employees and non-employee directors 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 options. However, stock options were granted to non-employees for services. The fair value of these options, pursuant to the Statement of Financial Accounting Standards No. 123, â€œAccounting for Stock-Based Compensationâ€ (â€œSFAS 123â€), as calculated by the Black-Scholes option pricing model, has been recorded as deferred compensation and is being expensed over the vesting period of such options. During the three and six months ended December 31, 2001, the Company recognized $15,288 and $30,576 of deferred compensation respectively.


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

In accordance with SFAS 109, the Company has recorded a valuation allowance against the realization of its deferred tax assets. The valuation allowance is based on managementâ€™s estimates and analysis, which includes tax laws which may limit the Companyâ€™s ability to utilize its tax loss carry-forwards.

Net Loss per Common Share â€“ The Company applies Statement of Financial Accounting Standards No. 128, â€œEarnings per Shareâ€ (â€œSFAS 128â€). SFAS 128 requires dual presentation of basic and diluted earnings per share (â€œEPSâ€) 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.

(4) Commitments and Contingencies:

Leases The Company currently leases two facilities in New Jersey under non-cancelable operating leases.

During 2001, the Company entered into an agreement to lease a new facility in Cranbury, New Jersey that will combine both the research and development facility in Edison, New Jersey and the corporate offices in Princeton, New Jersey. The Company anticipates occupying the new space in the second quarter of calendar year 2002. The Company’s anticipated cash outlay related to the move is projected at approximately $1.6 million.

License Agreements The Company has three license agreements that require minimum yearly payments. The cost to maintain these license agreements for the fiscal year ending June 30, 2002 amounts to $300,000. $250,000 was expensed during the three and six months ended December 31, 2001 under these agreements.

(5) Stockholders’ Equity:

In November 2001, the Company concluded a private placement of its common stock and warrants, which yielded gross proceeds of $11 million. Investors purchased 4,902,481 shares of common stock and 1,225,623 warrants at a market value of approximately $2.25 per share. For every four shares purchased, the investors also received a five-year warrant. Each warrant entitles the purchaser to purchase one share of common stock at an exercise price of approximately $2.70 per share. Based on the sales price of the common stock and warrants in this private placement, the conversion price of the Company’s outstanding Series A Preferred Stock and the exercise price of certain outstanding warrants have been adjusted downward in accordance with the existing terms of those securities. As a result, a deemed dividend of $285,725 has been reflected in the Company’s consolidated statement of operations.

(6) Income Tax Benefit:

In December 2001, the Company sold New Jersey Net Operating Losses pursuant to the New Jersey Economic Development Agency’s Tax Transfer Program. As a result, we received $162,010, which is reflected as an income tax benefit in the statement of operations.

General

The following discussion and analysis should be read in conjunction with the consolidated financial statements and accompanying notes filed as part of this report.

We make forward-looking statements in this report. Sometimes these statements contain words such as "anticipates," "plans," "intends," "expects" and similar expressions to identify forward-looking statements. These statements are not guarantees of our future performance. Our business involves known and unknown risks, uncertainties and other factors, which may cause our actual results, performance or achievements to be materially different from what we say in this report. We describe several of these factors in our annual report on Form 10-K for the year ended June 30, 2001. 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 may not revise these forward-looking statements to reflect events or circumstances after the date of this report or to reflect the occurrence of unanticipated events.

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

Overview

We are an emerging pharmaceutical company committed to the discovery, development and commercialization of novel therapeutics. We do not currently offer any products for sale. We are concentrating our efforts on the following:

â€¢ MIDASâ„¢ (Metal Ion-induced Distinctive Array of Structures) is our proprietary technology platform for drug design. Its systematic and rational design algorithms transform peptides into rigid peptidomimetics as well as small molecule drug leads. We believe that the use of the MIDAS technology increases the productivity of the drug discovery process, thereby eliminating the need for costly and time consuming steps such as the high-throughput screening of thousands of compounds, x-ray crystallography, NMR (nuclear magnetic resonance), CADD (computer assisted drug design), or other physical and in silico tools currently used for structure-based drug design. Several MIDAS derived compounds are now in preclinical development for the treatment of sexual dysfunction, obesity and inflammation.

â€¢ PT-141 is a novel, patented, nasally administered peptide analog of the neuropeptide hormone (alpha)-MSH ((alpha) - melanocyte-stimulating hormone) for the treatment of sexual dysfunction. Our research suggests that PT-141 works through a mechanism involving the central nervous system. We began human clinical testing of PT-141 for erectile dysfunction in the first quarter of calendar 2001. We have completed various Phase 1 studies and anticipate initiating Phase 2 efficacy trials in early calendar year 2002.
LeuTech® is a radiolabeled monoclonal antibody that binds to white blood cells that collect at sites of infection, thus enabling the infection to be easily and rapidly imaged and detected with a gamma camera. The FDA Medical Imaging Drugs Advisory Committee unanimously voted that LeuTech is safe and effective for the diagnosis of appendicitis. The FDA reviewed the biologics license application (BLA) and determined that the efficacy and safety data are complete, yet additional manufacturing and process validation data were required prior to final approval. We are working to resolve the outstanding issues and anticipate filing an amendment to the BLA in the latter part of calendar year 2002. We are testing LeuTech for detection of other infections, including osteomyelitis (infection deep inside a bone), which is now in Phase 2 studies.

Results of Operations

Three and Six Month Periods Ended December 31, 2001 Compared to Three and Six Month Periods Ended December 31, 2000.

Grants and Contracts â€“ There was no contract revenue related to the shared development costs of LeuTech pursuant to our collaboration agreement with Mallinckrodt, Inc., recorded for the three and six months ended December 31, 2001 compared to $664,793 and $1,459,874, respectively, for the three and six month periods ended December 31, 2000. The decrease in contract revenue was attributable to the cap on shared development costs of LeuTech pursuant to the agreement. We had no revenue from grants recorded for the three and six months ended December 31, 2001 compared to $60,000 for the six months ended December 31, 2000.

License Fees and Royalties â€“ During the fiscal year ended June 30, 2001, we adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101 â€œRevenue Recognition in Financial Statementsâ€ (â€œSAB 101â€), which requires up-front, non-refundable license fees to be deferred and recognized over the performance period. Accordingly, the cumulative effect of adopting SAB 101 resulted in a one-time, non-cash charge which reflected the deferral portion of an up-front license fee received from Mallinckrodt, Inc. related to licensing of LeuTech recognized in the fiscal year ended June 30, 2000. For the three and six months ended December 31, 2001 and 2000, we recorded $41,667 and $83,334, respectively, of license revenue that was included in the cumulative effect adjustment as of July 1, 2000.

Research and development â€“ Research and development expenses increased to $3,040,151 and $4,931,397, respectively, for the three and six month periods ended December 31, 2001 compared to $2,249,522 and $4,705,118, respectively, for the three and six month periods ended December 31, 2000. The increase in research and development expenses is related to the expanding clinical trials and development efforts of PT-141 and our MIDAS technology, and the further development costs associated with LeuTech.

General and administrative â€“ General and administrative expenses increased to $1,015,263 and $1,915,161, respectively, for the three and six month periods ended December 31, 2000 compared to $843,473 and $1,550,049, respectively, for the three and six month periods ended December 31, 2000. The increase in general and administrative expenses is mainly attributable to an increase in professional fees mainly related to legal fees and our new website.
Interest income decreased to $79,974 and $279,195, respectively, for the three and six month periods ended December 31, 2001 compared to $279,185 and $366,487, respectively, for the three and six month periods ended December 31, 2000. The decrease in interest income is mainly attributable to the time the funds were received, pursuant to our recent financing, in our account and available for investment purposes as opposed to timing of the September and October 2000 financing.

Net loss increased to $3,772,441 and $7,337,028, respectively, for the three and six month periods ended December 31, 2001 compared to $1,783,537 and $4,325,060, respectively, for the three and six month periods ended December 31, 2000. The increase was primarily attributable to the loss on impairment of assets of $916,518 pursuant to our anticipated move to Cranbury, New Jersey. (See Note 3) as well as the increase in expenses explained above.

Liquidity and Capital Resources

Since inception, we have incurred net operating losses. As of December 31, 2001, we had a deficit accumulated during development stage of $61,442,067. We have financed our net operating losses through December 31, 2001 by a series of debt and equity financings. At December 31, 2001, we had cash and cash equivalents of $15,023,906.

For the six months ended December 31, 2000, the net increase in cash was $3,567,482. Net cash used for operating activities was $6,428,549, net cash used by investing activities was $212,845 and net cash provided by financing activities was $10,208,876.

In November 2001, we concluded a private placement of our common stock and warrants, which yielded gross proceeds of $11 million. Investors purchased 4,902,481 shares of common stock and 1,225,623 warrants at a market value of approximately $2.25 per share. For every four shares purchased, the investors also received a five-year warrant. Each warrant entitles the purchaser to purchase one share of common stock at an exercise price of approximately $2.70 per share. The net proceeds of $10.2 million will be used primarily for general corporate purposes, including the development and clinical trials of new products based on certain of our proprietary technologies.

We have three license agreements that require minimum yearly payments. Future minimum payments under the license agreements are: 2002 - $300,000, 2003 - $300,000, 2004 - $200,000, 2005 - $200,000 and 2006 - $200,000.

During 2001, we entered into an agreement to lease a new facility totaling 28,000 square feet in Cranbury, New Jersey that will combine both the research and development facility in Edison, New Jersey and the corporate offices in Princeton, New Jersey. We anticipate occupying the new space in the second quarter of calendar year 2002. Our anticipated cash outlay related to the move is projected at $1.6 million.

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 plan to continue to refine our operations, control expenses, evaluate alternative methods to conduct our business and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements or other resources. We expect our existing capital resources will be adequate to fund our projected operations through calendar year 2002, 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-141 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

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

As of December 31, 2001, our cash and cash equivalents consisted of $15,023,906, most of which were short term investments having an original maturity of less than three months. Due to the average maturity and conservative nature of our investment portfolio, we do not believe that short-term fluctuations in interest rates would materially affect the value of our securities.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

On March 14, 2000, we announced that we would not be extending the merger closing date of March 31, 2000 for our previously announced proposed merger with San Diego-based Molecular Biosystems, Inc. and will not be proceeding with the merger. Our decision not to proceed with the merger was based on management’s view that the merger was not in the best interests of our stockholders.

On or about April 28, 2000, Molecular Biosystems commenced a legal action against us and against Evergreen Merger Corporation, a wholly-owned subsidiary of the Company, in the Superior Court of the State of Delaware, County of New Castle. In the complaint, Molecular Biosystems seeks damages against us and Evergreen arising from the alleged improper termination of the merger agreement dated November 11, 1999, among Molecular Biosystems, Palatin and Evergreen. Under the merger agreement, Evergreen would have merged with and into Molecular Biosystems, which would have become a wholly-owned subsidiary of ours.

As a consequence of the claims alleged in the complaint, Molecular Biosystems contends that it is entitled to an award of damages against us and Evergreen in amounts to be determined at trial, but in any event, at least equal to $1,765,305. This figure represents the amount of a €breakerup fee€ of $1,000,000 provided for in the agreement and $765,305 for the purported costs and expenses allegedly incurred by Molecular Biosystems in connection with the proposed
merger. In addition, Molecular Biosystems seeks consequential damages in an unstated amount plus interest and Molecular Biosystems’ costs and expenses of the action.

In our response filed in June of 2000, we have denied the material allegations. Management believes that we have good and meritorious defenses to the action and we intend vigorously to defend the action. On January 3, 2001, Alliance Pharmaceutical Corp. (NASDAQ: ALLP) announced that it had completed its acquisition of Molecular Biosystems. This litigation is currently in the discovery and deposition phase.

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Item 2. Changes in Securities and Use of Proceeds.

In a private placement of common stock and warrants, which concluded in November 2001, we sold 4,902,481 shares of our $.01 par value common stock and 1,225,623 warrants at a market value of approximately $2.25 per share. For every four shares purchased, the investors also received a five-year warrant. Each warrant entitles the purchaser to purchase one share of common stock at an exercise price of approximately $2.70 per share. The gross proceeds totaled $11 million and the net proceeds totaled $10.2 million. We made the private placement solely to foreign and domestic accredited investors pursuant to Regulations D and S under the Securities Act of 1933. The investors represented to us that they were purchasing the securities for their own accounts for investment and not with a view toward resale or distribution to others. The certificates representing the shares of common stock and warrants bear restrictive legends.

In connection with the private placement, we paid finder fees to third parties in the aggregate of $771,879 and issued five-year warrants in the aggregate to purchase 356,060 shares of common stock at approximately $2.70 per share.

Item 3. Defaults Upon Senior Securities.

None.

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

At our annual meeting of stockholders which convened on November 27, 2001, the stockholders:

- elected seven directors
- ratified the appointment of Arthur Andersen LLP as our independent public accountants for the fiscal year ending June 30, 2002

Common stock and Series A convertible preferred stock voted as a single class on all matters. The following tables show the votes cast.

<table>
<thead>
<tr>
<th>Election of directors:</th>
<th>For</th>
<th>Withheld Authority</th>
<th>Broker Non-votes</th>
</tr>
</thead>
</table>
Abstentions and broker non-votes were counted neither for nor against the election of officers or the ratification of accountants.

Item 5. Other Information.

None.

Item 6. Exhibits and Reports on Form 8-K.

(a) Exhibits filed with this report:

None.

(b) Reports on Form 8-K

None.
Palatin Technologies, Inc.  
(Registrant)

Date: February 14, 2001

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

Date: February 14, 2001

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