SECURITIES & EXCHANGE COMMISSION EDGAR FILING

Palatin Technologies, Inc.

Form: 10-K

Date Filed: 2002-09-30

Corporate Issuer CIK:	911216
Symbol:	PTN
Fiscal Year End:	6/30

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended June 30, 2002

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	95-4078884
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
4C Cedarbrook Drive Cranbury, New Jersey (Address of principal executive offices)	08512 (Zip Code)

Registrant's telephone number, including area code: (609) 495-2000

Securities registered pursuant to Section 12(b) of the Exchange Act:

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

Securities registered pursuant to Section 12(g) of the Exchange Act: None

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the preceding 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 [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not 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-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant, computed by reference to the price at which the common equity was sold, as of September 27, 2001, was $29,595,999.

As of September 26, 2002, 18,968,090 shares of the registrant's common stock, par value $.01 per share, were outstanding.

Documents incorporated by reference: the registrant's definitive proxy statement relating to the annual meeting of stockholders currently scheduled for December 2002, incorporated by reference in Part III of this Form 10-K.

TABLE OF CONTENTS

PART I

Item 1.	Business	Page 4
Item 2.	Properties	Page 12
Item 3.	Legal Proceedings	Page 12
Item 4.	Submission of Matters to a Vote of Security Holders	Page 12

PART II

Item 5.	Market for Registrant's Common Equity and Related Stockholder Matters	Page 13
Item 6.	Selected Financial Data	Page 16
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	Page 18
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	Page 31
Item 8.	Financial Statements and Supplementary Data	Page 32
Item 9.	Changes In and Disagreements With Accountants on Accounting and Financial Disclosure	Page 57

PART III

Item 10.	Directors, Executive Officers, Promoters and Control Persons; Compliance with Section 16(a) of the Exchange Act	Page 58*
Item 11.	Executive Compensation	Page 58*
Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	Page 58*
Item 13.	Certain Relationships and Related Transactions	Page 58*

*Incorporated by reference from our definitive proxy statement relating to the 2002 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days after our June 30, 2002 fiscal year end.

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K Page 58

Signatures Page 62

Certifications of principal executive and financial officers Page 63

Table of Contents

PART I

Item 1. Business.

Forward-looking statements

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 report 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 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.

Overview

We are a development-stage bio-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:

- **PT-141** is a new, nasally administered peptide for the treatment of sexual dysfunction. PT-141 is a synthetic analog of the naturally occurring hormone alpha-MSH (melanocyte-stimulating hormone). The MSH class of hormones are potent regulators of a variety of physiological and behavioral functions, including the natural physiological sexual response. We believe that PT-141 may offer many potential advantages over current therapies for erectile dysfunction. The nasal mode of administration is non-invasive and fast-acting. Our research suggests that PT-141 works through a mechanism involving the central nervous system, which offers several potential benefits for patients and medical practitioners over currently available phosphodiesterase inhibitors that work through the vascular system to moderate blood flow. We have completed various Phase 1 studies and a Phase 2A efficacy study in male patients and a Phase 1 study in female subjects. We are currently conducting a Phase 2A efficacy study in male patients with more severe erectile dysfunction and expect to complete this study later this calendar year. We are planning to start a placebo-controlled Phase 2B "at home" efficacy study in male patients later this calendar year and a Phase 2A efficacy study in females in the beginning of next calendar year.

- **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, a common piece of hospital equipment that records radioactivity. The FDA Medical Imaging Drugs Advisory Committee unanimously voted that LeuTech is safe and effective for the diagnosis of equivocal appendicitis. The FDA reviewed the biologics license application (BLA) and determined that the efficacy and safety data are complete, yet

Table of Contents

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 later this calendar year or in the first quarter of calendar year 2003. We are testing LeuTech for detection of other infections, including osteomyelitis (infection deep inside a bone), fever of unknown origin, post-surgical abscess and inflammatory bowel disease, which are now in Phase 2 studies.

- **MIDAS™ (Metal Ion-induced Distinctive Array of Structures)** is a rational, synthetic platform for drug design and discovery. The platform provides a rapid and efficient process to transform peptides into either peptidomimetic therapeutic leads or small molecule therapeutic leads. We believe MIDAS' process and streamlined algorithms improve the productivity of the drug discovery process by eliminating the need for costly and time consuming high-throughput screening, x-ray crystallography, NMR (nuclear magnetic resonance), CADD (computer assisted drug design), or other laboratory and *in silico* tools currently used for structure-based drug design. We are engaged in research and development using this technology to diagnose infections and treat sexual dysfunction, obesity and inflammation, 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

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: In Phase 1 clinical trials, researchers test a new drug or treatment in a small group of patients for the first time to evaluate its safety.

Phase 2: In Phase 2 clinical trials, the study drug or treatment is given to patients to see if it is effective, to determine a safe dosage range and to further evaluate its safety.

Phase 3: In Phase 3 studies, the study drug or treatment is given to large groups of patients to confirm its effectiveness, monitor side effects, compare it to commonly used treatments, and collect information that will support product approval.

Investigational new drug application, or IND: application to the FDA that details preclinical safety information, plans for initial clinical evaluation and preliminary drug manufacturing information.

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

New Drug Application, or NDA: application for FDA approval for sale of a product classified as a drug.

Table of Contents

MIDAC: Medical Imaging Drug Advisory Committee.

PT-141. PT-141 is our lead therapeutic drug candidate and it is now in development for the treatment of male erectile dysfunction (MED) and female sexual dysfunction (FSD). PT-141 works through a novel mechanism

of action.

Our research suggests this mechanism may involve the central nervous system which is different from currently marketed MED therapies. We believe PT-141 has the potential to treat both male and female sexual dysfunction and that it may offer significant benefits in terms of safety and efficacy over currently marketed products. We have completed various Phase 1 human safety evaluation studies, a Phase 2A efficacy study in male patients and a Phase 1 study in female subjects. We are currently conducting a Phase 2A efficacy study in male patients with more severe erectile dysfunction and expect to complete this study later this calendar year. Our completed clinical trials in males indicate that PT-141 can induce erections and therefore may be a promising treatment for MED. We are planning to start a placebo-controlled Phase 2B "at home" efficacy study in male patients later this calendar year and a Phase 2A efficacy study in females in the beginning of next calendar year.

Studies indicate that as many as 30 million men and 35 million women in the United States may be afflicted with some form of MED or FSD. Because of the large number of men and women believed to be afflicted with some form of sexual dysfunction, we believe the total market for treatment will be several billion dollars per year. There is tremendous competition to develop and market drugs for the treatment of MED and FSD.

LeuTech. LeuTech is a radiolabeled monoclonal antibody that is intended to image and diagnose sites of infection. When injected into the blood stream, LeuTech binds to white blood cells present at the infection site, labeling these cells with a radioactive tracer. As a result, physicians can rapidly image and detect an infection using a gamma camera, a common piece of hospital equipment that records radioactivity. In July 2000, the FDA MIDAC panel unanimously recommended the approval of LeuTech for use in diagnosing appendicitis in patients with equivocal signs and symptoms. Currently, we are responding to the FDA's request for additional manufacturing and process validation information in accordance with their complete review letter dated September 23, 2000. We anticipate filing amendments to the BLA later this calendar year or in the first quarter of calendar 2003. We are conducting additional Phase 2 clinical trials with LeuTech to diagnose other infections such as bone infections (osteomyelitis), fever of unknown origin, post-surgical abscess and inflammatory bowel disease.

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

Table of Contents

molecules are information-rich and provide data on structure-activity relationships that can be used to design traditional small molecule drugs.

We have initiated a MIDAS program to discover and develop compounds that interact with the melanocortin (MC) family of receptors. MC receptors regulate a diverse array of functions such as pigmentation, adrenocortical function, immune modulation, sexual arousal and energy maintenance. Based on this effort, we have identified several MIDAS molecules that are now in preclinical development as potential treatments for obesity and inflammation. Additionally, we have identified molecules that interact with receptors on cancer cells; one of these molecules is now in preclinical development as a potential treatment for cancer. We expect to file INDs for at least one of these preclinical compounds and initiate clinical testing within the next two years.

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

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

Under the terms of the amended agreement, Mallinckrodt has committed up to an additional $3.2 million, subject to certain conditions and attaining certain milestons, to cover half of our estimated expenses associated with completing the FDA review process. Additionally, timing of the $10 million in milestone payments has been revised to coincide with LeuTech's anticipated FDA approval and achievement of future sales goals.

Research and Development. Our research and development efforts primarily focus on two areas: diagnostic imaging and therapeutics. By combining these areas, we believe our technologies will facilitate the development of a portfolio of potential products.

A summary of our research and development programs appears below. "Research" includes the identification of novel molecular targets, development of assay systems, discovery and evaluation of prototype compounds in vitro and in vivo with animal testing. "Development" includes product formulation, toxicology and additional animal testing of a compound followed by clinical testing and manufacturing methods development.

Table of Contents

Program	Indication	Status	U.S. Commercial Rights
LeuTech	Equivocal appendicitis	Pending FDA Approval	Mallinckrodt/Tyco
LeuTech	Osteomyelitis - prosthetic joint infection	Phase 2	Mallinckrodt/Tyco
LeuTech	Osteomyelitis - diabetic foot ulcers	Phase 2	Mallinckrodt/Tyco
LeuTech	Fever of unknown origin	Phase 2	Mallinckrodt/Tyco
LeuTech	Post-surgical abscess	Phase 2	Mallinckrodt/Tyco
LeuTech	Inflammatory bowel disease	Phase 2	Mallinckrodt/Tyco
PT-141	Erectile dysfunction	Phase 1 and initial Phase 2A complete. Additional Phase 2A ongoing, to be completed later this calendar year. Phase 2B to begin the last quarter of this calendar year.	
PT-141	Female sexual arousal disorder	Phase 1 clinicalstudy complete, Phase 2A to begin the first quarter of calendar year 2003.	
PT-15 (MIDAS compound)	Obesity	Preclinical	

PL-2299 (MIDAS compound)	Sexual dysfunction	Preclinical
Anti-inflammatory agent (MIDAS compound)	Inflammation/Ischemia	Preclinical

Over the last three fiscal years, we have spent approximately the following amounts on company-sponsored research and development activities:

- year ended June 30, 2002: $12,117,000
- year ended June 30, 2001: $10,109,000
- year ended June 30, 2000: $ 9,110,000

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.

Table of Contents

We own or have rights to United States and foreign patents and pending applications directed to radiolabeling of antibodies, antibody fragments, and peptides; MIDAS peptides; small molecules; and methods for making and using the foregoing in diagnostic and therapeutic applications.

We have exclusive rights to patents and applications relating to PT-141 for sexual dysfunction, and own pending United States and foreign applications covering PT-141. The claims of any patents that issue covering PT-141 may not provide meaningful protection. In addition, even if such patents issue they may not be valid.

We own patents covering certain aspects of the LeuTech product, but the claims of those patents may not be effective to prevent others from developing competing products. In addition, the validity of these patents has not been determined.

In the event that 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 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 losing patent protection for the subject of the interference, subjecting us to significant liabilities to third parties and requiring us to obtain licenses from third parties at undetermined cost or to cease using the technology.

Future patent infringement. We do not know for certain that our commercial activities will not infringe upon patents or patent applications of third parties, some of which may not even have been issued yet. Although we are not aware of any valid U.S. patents which are infringed by PT-141 or LeuTech or by our methods of making PT-141 and LeuTech, we cannot exclude the possibility that such patents might exist or arise in the future. 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 previously 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. In addition, we may be required to manufacture in the United States products to be sold in the United States.

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,

Table of Contents

consultants and certain 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.

If trade secrets are breached, our recourse will be solely against the person who caused the secrecy breach. This might not be an adequate remedy to us, because third parties other than the person who causes the breach will be free to use the information without accountability to us. This is an inherent limitation of the law of trade secret protection.

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. We depend on contract manufacturing establishments, both in the United States and in foreign countries, to manufacture components of LeuTech. We anticipate that contract manufacturing establishments will manufacture PT-141 and proposed products resulting from MIDAS technology.

Table of Contents

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 the 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 current 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 are dependent on DSM N.V. 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 comply with FDA current good manufacturing practices or to supply these key components of LeuTech on a timely basis or at all, would force us to seek alternative sources of supply and could interfere with our ability to deliver product on a timely basis or at all. Establishing relationships with new suppliers, any of whom must be FDA-approved, is a time-consuming and costly process.

If LeuTech is approved for marketing by the FDA, we will rely on our arrangement with Mallinckrodt/Tyco to market, sell and distribute LeuTech. We will have limited control over these activities.

Proposed products resulting from MIDAS technology and PT-141 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.

Table of Contents

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 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.

Employees

We currently employ 46 persons full time, of whom 34 are engaged in research and development activities and 12 are engaged in administration and management. Nineteen of our employees hold Ph.D. degrees and one is an M.D. We have been successful in attracting skilled and experienced scientific personnel, however,

competition for personnel in our industry is intense.

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

From time to time, we hire scientific consultants to work on specific research and development programs. We also 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 sign agreements that provide for confidentiality of our proprietary information.

Item 2. Properties.

Our corporate offices and research and development facility are located at 4C Cedar Brook Drive, Cedar Brook Corporate Center, Cranbury, New Jersey, where we lease approximately 28,000 square feet under a lease which expires July 17, 2012. Our previous corporate offices were located at 103 Carnegie Center, Suite 200, Princeton, NJ 08540, where we continue to lease approximately 7,300 square feet under a lease which expires December 15, 2004. The leased properties are in good condition.

Item 3. Legal Proceedings.

Following the termination of our proposed merger with San Diego-based Molecular Biosystems, Inc. in March 2000, Molecular Biosystems commenced a

Table of Contents

legal action against us, seeking damages arising from the alleged improper termination of the merger agreement. We denied the material allegations. In August 2002, in order to avoid the ongoing costs of the litigation and consumption of our time, we settled this litigation with Molecular Biosystems for $400,000, which we have accrued as of June 30, 2002.

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

We did not submit any matters to a vote of security holders during the fourth quarter of the fiscal year ended June 30, 2002.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

Our common stock has been quoted on The American Stock Exchange (AMEX) under the symbol PTN, since December 21, 1999. It had previously traded on The Nasdaq SmallCap Market under the symbol PLTN.

The table below provides, for the fiscal quarters indicated, the reported high and low sales prices for the common stock on AMEX since July 1, 2000.

YEAR ENDED JUNE 30, 2002	HIGH	LOW
Fourth Quarter	$3.38	$1.62
Third Quarter	$4.45	$3.05
Second Quarter	$5.92	$2.00
First Quarter	$5.22	$2.91

YEAR ENDED JUNE 30, 2001	HIGH	LOW
Fourth Quarter	$6.56	$2.25

Third Quarter	$4.63	$2.00
Second Quarter	$6.13	$2.56
First Quarter	$8.19	$4.94

Holders of common stock. On September 26, 2002, we had approximately 269 holders of record of common stock. On September 26, 2002 the closing sales price of our common stock as reported on the AMEX was $2.14 per share.

Table of Contents

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 two outstanding series of preferred stock, Series A 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 stock.

• Series C: We may not pay a dividend or make any distribution to holders of any class of stock while any Series C preferred stock remains outstanding.

Securities authorized for issuance under equity compensation plans.

EQUITY COMPENSATION PLAN INFORMATION
AS OF JUNE 30, 2002

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders (1)	3,738,359	$4.25	1,431,435
Equity compensation plans not approved by security holders	1,632,471	$4.32	0

_____

(1) Includes individual option and warrant agreements we assumed when we merged with RhoMed Incorporated in 1996. Options and warrants to purchase 383,849 shares of common stock are outstanding under the assumed agreements, with a weighted average exercise price of $5.69 per share, and no additional options or warrants are available for issuance.

We have authorized the issuance of equity securities under the compensation plans described below, without the approval of stockholders. No additional options, warrants or rights are available for issuance under any of these plans, except for additional shares which may become purchasable under warrants with anti-dilution protection as noted below. We have either already registered or agreed to register for resale the common stock underlying all of these plans. We anticipate filing a registration statement for the unregistered stock shortly.

Table of Contents

- 1997 Executive Officers Stock Option Agreement, dated June 3, 1997: provided common stock purchase options to three executive officers to purchase an aggregate of 103,004 shares at $4.96 per share. Options to purchase 26,766 shares remain outstanding with an expiration date of June 3, 2007, and options to purchase 49,472 shares remain outstanding with an expiration date of June 13, 2004.

- Richard J. Murphy Stock Option Agreement, dated December 4, 1997: provided common stock purchase options to a former director to purchase 5,000 shares at $5.44 pershare and 1,066 shares at $7.50 per share, with an expiration date of December 4, 2007. These options replaced options for the same number of shares at the same prices which terminated under our 1996 Stock Option Plan.

- Watson Laboratories settlement warrants, dated March 15, 2000: provided common stock purchase warrants to eight individuals who participated in a privately negotiated resale of 363,636 shares of our common stock, to purchase an aggregate of 50,000 shares at $0.01 per share, with an expiration date of March 15, 2005. Warrants to purchase 22,000 shares remain outstanding.

- Griffin Financial Services Advisory Agreement warrants, dated June 8, 2000: provided common stock purchase warrants to Griffin Securities, Inc., a financial consultant, to purchase 5,000 shares at $7.00 per share, with an expiration date of June 8, 2005.

- Wistar Institute of Anatomy and Biology warrants, dated December 15, 2000: provided common stock purchase warrants to a technology licensor to purchase 15,000 shares at $4.00 per share, with an expiration date of December 15, 2010.

- Cedar Brook II Corporate Center, L.P. warrants, dated April 6, 2001 and December 17, 2001: provided common stock purchase warrants to the lessor of our office and laboratory facility to purchase 30,000 shares at $2.90 per share, with an expiration date of April 6, 2006, and 25,000 shares at $3.65 per share with an expiration date of December 17, 2006

- Fried Consulting Agreement warrants, dated April 30, 2002: provided common stock purchase warrants to Albert Fried, Jr., a financial consultant, to purchase 15,000 shares at $2.70 per share, with an expiration date of April 30, 2007.

- Placement warrants: provided common stock purchase warrants as compensation to various private offering placement agents to purchase an aggregate of 1,416,365 shares. These warrants have the following share amounts, prices (rounded to the nearest cent) and expiration dates:

Offering	Shares Purchasable	Exercise Price	Expiration Date
Spring 1997	326,488	$4.39	11-09-02
December 1998	10,000	$4.38	12-31-03

Table of Contents

Offering	Shares Purchasable	Exercise Price	Expiration Date
Spring 1999	194,600	$4.70	02-08-04
Spring 1999	20,000	$4.48	03-09-04
Spring 1999	50,000	$4.56	03-10-04
Spring 1999	44,073	$5.57	03-12-04
Fall 2000	216,000	$6.60	10-05-05
Fall 2000	87,884	$6.53	10-27-05
Fall 2001	134,188	$2.66	10-29-06
Fall 2001	221,872	$2.70	10-29-06

Spring 2001	109,510	$2.75	06-13-07

Recent sales of unregistered securities. In closings on June 13 and July 29, 2002, we sold a total of 2,640,160 shares of common stock, and five-year warrants to purchase 528,031 shares of common stock in a private placement of common stock and warrants to five accredited investors. We received gross proceeds of $4,212,500. The warrant exercise price for 219,019 shares is $2.75 per share, and the exercise price for 309,012 shares is $1.46 per share. We paid cash placement agent fees totaling $294,000 and issued five-year warrants to purchase a total of 212,514 shares of common stock to placement agents for the offering. The placement agent warrant exercise price for 109,510 shares is $2.75 per share, the exercise price for 51,502 shares is $1.46 per share and the exercise price for 51,502 shares is $1.37 per share.

We made the private offering to domestic accredited investors pursuant to Regulation D, and to foreign accredited investors pursuant to Regulation 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 stock and warrants sold are not transferable absent registration or exemption from registration requirements, and the certificates bear a legend to that effect. We have agreed to register for resale under the Securities Act of 1933 the common stock sold and the common stock issuable on exercise of the warrants.

On April 30, 2002, under the terms of a consulting agreement, we issued five-year warrants to purchase 15,000 shares of common stock at $2.70 per share to Albert Fried, Jr. We relied on the exemption under Section 4(2) of the Securities Act of 1933 in that issuance of the warrants did not involve any public offering. The warrants are not transferable absent registration or an exemption from registration, and the certificates bear a legend to that effect. We have agreed to register for resale under the Securities Act of 1933 the common stock issuable on exercise of the warrants.

In April and December 2001, under the terms of the lease agreement for our Cranbury, NJ facility, we issued warrants to Cedar Brook II Corporate Center, L.P. to purchase 30,000 shares of common stock at $2.90 per share, with an expiration date of April 6, 2006, and 25,000 shares

Table of Contents

at $3.65 per share, with an expiration date of December 17, 2006. We relied on the exemption under Section 4(2) of the Securities Act of 1933 in that issuance of the warrants did not involve any public offering. The warrants are not transferable absent registration or an exemption from registration, and the certificates bear a legend to that effect. We have agreed to register for resale under the Securities Act of 1933 the common stock issuable on exercise of the warrants.

Item 6. Selected Financial Data.

The following selected consolidated financial data has been derived from the audited consolidated financial statements of Palatin Technologies, Inc. This data should be read in conjunction with our consolidated financial statements, including the notes to the financial statements, and the "Management's Discussion and Analysis of Financial Condition and Results of Operations" in Item 7 of this report.

Selected Financial Data

(In thousands, except per share data)
Year Ended June 30,

	1998	1999	2000	2001	2002
Statement of Operations Data:					
REVENUES					
Grants and contracts	$ 34	$ 60	$ 4,617	$ 1,621	$ 81
License fees and royalties	--	550	500	167	200
Other	--	--	--	--	--

Total revenues	34	610	5,117	1,788	281
OPERATING EXPENSES					
Research and development	7,111	8,720	9,110	10,109	12,117
General and administrative	2,991	3,957	4,567	3,025	5,004
Total operating expenses	10,102	12,677	13,677	13,134	17,121
OTHER INCOME (EXPENSES)					
Interest income	409	172	405	788	312
Interest expense	(227)	(107)	(29)	(5)	(3)
Total other income/(expense)	182	65	376	783	309
Loss before income taxes and cumulative effect of accounting change	(9,886)	(12,002)	(8,184)	(10,563)	(16,531)
Income tax benefit	--	--	--	325	392
Loss before cumulative effect of accounting change	(9,886)	(12,002)	(8,184)	(10,238)	(16,139)
Cumulative effect of accounting change (1)	--	--	--	(361)	--
NET LOSS	(9,886)	(12,002)	(8,184)	(10,599)	(16,139)
PREFERRED STOCK DIVIDEND	(233)	--	--	--	(297)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (10,119)	$ (12,002)	$ (8,184)	$ (10,599)	$ (16,436)

Table of Contents

(In thousands, except per share data)

	Year Ended June 30,				
	1998	1999	2000	2001	2002
Basic and diluted net loss before cumulative effect of accounting change	$ (3.15)	$ (2.02)	$ (1.10)	$ (1.01)	$ (1.16)
Cumulative effect of accounting change (1)	--	--	--	(0.04)	--
Basic and diluted net loss per common share	$ (3.15)	$ (2.02)	$ (1.10)	$ (1.05)	$ (1.16)
Weighted average common shares outstanding	3,211	5,936	7,441	10,131	14,195
Pro forma amounts assuming accounting change applied retroactively:					
Net loss to common shareholders	$ (10,119)	$ (12,002)	$ (8,545)	$ (10,238)	
Basic and diluted net loss per common share	$ (3.15)	$ (2.02)	$ (1.15)	$ (1.01)	
Balance Sheet Data:					
Cash, cash equivalents and investments	$ 4,326	$ 2,789	$ 5,842	$ 11,456	$ 9,123
Property and equipment, net	1,610	1,458	1,573	1,925	2,416
Working capital	2,069	554	4,995	9,360	6,595
Total assets	6,475	4,723	8,885	14,244	12,358
Long term debt, net of current portion	--	2,000	--	--	--
Stockholders' equity	$ 3,390	$ 341	$ 6,905	$ 11,916	$ 8,687

(1) In fiscal 2001, we recorded a non-cash charge for the cumulative effect related to the adoption of SEC Staff Accounting Bulletin No. 101. See Note 2 to the Consolidated Financial Statements.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

Critical Accounting Policies.

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in this Annual Report. We believe our most critical accounting policy is revenue recognition. Revenue from corporate collaborations and licensing agreements consists of up-front fees, research and development funding, and milestone payments. Non-refundable up-front fees are deferred and amortized to revenue over the related performance period. We estimate our performance period as the initial research term. The actual performance period may vary. We will adjust the performance period estimate based upon available facts and circumstances. Periodic payments for research and development activities and government grants are recognized over the period that we perform the related activities under the terms of the agreements. Revenue resulting from the achievement of milestone events stipulated in the

Table of Contents

agreements is recognized when we have adequate evidence that the milestone is deemed to be substantive.

Significant Events in Fiscal Year 2002

In November 2001 and June 2002, we received aggregate gross proceeds of $13.4 million in private placements of common stock and warrants. Investors, consisting of domestic and European financial institutions and other accredited investors, purchased approximately 6 million shares of common stock: 4,902,481 shares at $2.25 per share and 1,095,097 shares at $2.20 per share. For every four shares purchased in the November 2001 offering and for every five shares purchased in the June 2002 offering, the investors also received a five-year warrant to purchase one share of common stock at an exercise price of $2.70 for the November 2001 offering and $2.75 for the June 2002 offering. The net proceeds of approximately $12.5 million continue to be used primarily for general corporate purposes, especially for the development and clinical trials of new products based on our proprietary technologies.

In July 2002, we received additional gross proceeds of $1.8 million pursuant to the second closing of the Spring 2002 private placement of common stock and warrants. Investors, consisting of domestic and European financial institutions and other domestic accredited investors, purchased approximately 1.5 million shares of common stock shares at $1.17 per share. For every five shares purchased, the investors also received a five-year warrant to purchase one share of common stock at an exercise price of $1.46 per share. The net proceeds of approximately $1.7 million will be used primarily for general corporate purposes, especially for the development and clinical trials of new products based on our proprietary technologies.

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

Under the terms of the amended agreement, Mallinckrodt has committed up to an additional $3.2 million, subject to certain conditions and attaining certain milestones, to cover half of our estimated expenses associated with completing the FDA review process. Additionally, timing of the $10 million in milestone payments has been revised to coincide with LeuTech's anticipated FDA approval and achievement of future sales goals.

Table of Contents

Results of Operations

Year Ended June 30, 2002 Compared to the Year Ended June 30, 2001

Grants and contracts - For the year ended June 30, 2002, we did not recognize any contract revenue related to the shared development costs of LeuTech pursuant to our collaboration agreement with Mallinckrodt, Inc., a division of Tyco International, Ltd., as compared to $1,410,356 recognized for the year ended June 30, 2001. The decrease was attributable to the cap on shared development costs of LeuTech pursuant to the original collaboration agreement, which was reached during the year ended June 30, 2001. In May 2002 we entered into an agreement with Mallinckrodt to amend this agreement. Under the terms of this amended agreement, Mallinckrodt has committed, among other things, up to an additional $3.2 million, subject to certain conditions and attaining certain milestones, to cover half of the estimated expenses associated with completing the FDA review process of LeuTech. Grant revenue under the Small Business Innovation Research and the Small

Business Technology Transfer programs of the Department of Health and Human Services decreased to $80,929 for the year ended June 30, 2002 compared the $211,069 reported for the year ended June 30, 2001.

License Fees and Royalties - During the year ended June 30, 2001, we adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"), which requires up-front, non-refundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 resulted in a one-time, non-cash charge of $361,111 or $0.04 per share in fiscal 2001, which reflects the deferral of an up-front license fee received from Mallinckrodt, Inc. related to licensing of LeuTech recognized in the year ended June 30, 2000. Previously, we had recognized up-front license fees when they were received and we had no obligations to return the fees under any circumstances. Under SAB 101 these payments are recorded as deferred revenue to be recognized over the remaining term of the related agreements. For the year ended June 30, 2002, we recorded $200,426 of license revenue, $138,888 of which was included in the cumulative effect adjustment as of July 1, 2000 and $61,538 was recorded as a result of the initial $800,000 payment received from Mallinckrodt pursuant to our amended collaboration agreement in May 2002. We recorded $166,667 of license revenue for the year ended June 30, 2001 that was included in the cumulative effect adjustment as of July 1, 2000.

Research and development - Research and development (R&D) expenses increased to $12,117,026 for the year ended June 30, 2002 compared to $10,108,999 for the year ended June 30, 2001. The increase in R&D was primarily related to our increased development efforts and expanding clinical trials of PT-141 and LeuTech, and increased research on our MIDAS technology. Additionally, depreciation expense increased due to a change in the remaining estimated useful lives of certain leasehold improvements at our Edison, New Jersey facility which we moved out of in July 2002. Our R&D efforts, and their respective allocated costs, are currently concentrated on the following:

- PT-141: To date we have incurred approximately $13.1 million in R&D expenses allocated to PT-141. For the year ended June 30, 2002, $6,011,470 of R&D expense was allocated to PT-141 compared to $3,761,741 for the year ended June 30, 2001. We

Table of Contents

anticipate incurring approximately $8.2 million over the next 12 months as we initiate various Phase 2 efficacy studies in both male and female patients. We believe commercialization will require approximately three years of further research, development and testing at an estimated cost of $75 million.

- LeuTech: To date we have incurred approximately $35.2 million in R&D expenses allocated to LeuTech. For the year ended June 30, 2002, $3,549,268 of R&D expense was allocated to LeuTech compared to $4,750,189 for the year ended June 30, 2001. Currently, we are in the process of resolving outstanding issues and we intend to file an amendment to the Biologics License Application for equivocal appendicitis later this calendar year or the first quarter of calendar 2003. We are also currently conducting various Phase 2 studies with respect to other infection indications. We anticipate incurring approximately $6.2 million in additional R&D expenses prior to the market launch of LeuTech, which we expect to occur in the summer of 2003, pending FDA approval.

- MIDAS: To date we have incurred approximately $6.7 million in R&D expenses allocated to MIDAS. For the year ended June 30, 2002, $2,556,288 of R&D expense was allocated to MIDAS compared to $1,597,069 for the year ended June 30, 2001. Based on this effort, we have identified several molecules that are now in preclinical development as potential treatments for obesity, sexual dysfunction and inflammation. Additionally, we have identified molecules that interact with receptors on cancer cells. We expect to file an Investigational New Drug Application ("IND") with the FDA for at least one of these preclinical compounds and initiate clinical testing in the first half of calendar year 2003. We anticipate incurring approximately $1.2 million in expenses allocable to MIDAS over the next 12 months. Any projections beyond that are highly uncertain due to the nature of such an early stage in the development process.

General and administrative - General and administrative (G& A) expenses increased to $5,004,143 for the year ended June 30, 2002 compared to $3,024,841 for the year ended June 30, 2001. The increase in G&A was primarily attributable to an increase in professional fees mainly related to legal fees, increase in salaries and related personnel expenses and the accrual of our settlement of litigation with Molecular Biosystems, Inc. Since our settlement with Molecular Biosystems, Inc., we expect a decrease in professional fees beginning later this calendar year.

Interest income - Interest income decreased to $312,015 for the year ended June 30, 2002 compared to $787,574 for the year ended June 30, 2001. The decrease in interest income was due to lower level of funds available for investment purposes and lower rates of return experienced throughout the fiscal year ended June 30, 2002.

Net Loss - Increased to $16,138,577 for the year ended June 30, 2002 compared to $10,599,237 for the year ended June 30, 2001. The increase was due to the reduction in grant and contract revenue and the increase in expenses explained above.

Year Ended June 30, 2001 Compared to the Year Ended June 30, 2000

Grants and contracts - Contract revenue, related to the shared development costs of LeuTech pursuant to our collaboration agreement with Mallinckrodt, Inc. decreased to$1,410,356 for the year ended June 30, 2001 as compared to $4,141,480 reported for the year ended June 30, 2000. The decrease was attributable to the cap on shared development costs of LeuTech pursuant to the agreement. Grant revenue under the Small Business Innovation Research and the Small Business Technology Transfer programs of the Department of Health and Human Services decreased to $211,069 for the year ended June 30, 2001 compared the $475,631 reported for the year ended June 30, 2000.

License Fees and Royalties - During the year ended June 30, 2001, we adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101"), which requires up-front, non-refundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 resulted in a one-time, non-cash charge of $361,111 or $0.04 per share, which reflects the deferral of an up-front license fee received from Mallinckrodt, Inc. related to licensing of

Table of Contents

LeuTech recognized in the year ended June 30, 2000. Previously, we had recognized up-front license fees when they were received and we had no obligations to return the fees under any circumstances. Under SAB 101 these payments are recorded as deferred revenue to be recognized over the remaining term of the related agreements. For the year ended June 30, 2001, we recorded $166,667 of license revenue that was included in the cumulative effect adjustment as of July 1, 2000. Our year ended June 30, 2000 and 1999 results have not been restated to apply SAB 101 retroactively.

Research and development - Research and development (R&D) expenses increased to $10,108,999 for the year ended June 30, 2001 compared to $9,109,619 for the year ended June 30, 2000. The increase in R&D is primarily related to our increased development efforts and expanding clinical trials of PT-141 and research on our MIDAS Technology. R&D expenses allocated to LeuTech amounted to $4,750,189 for the year ended June 30, 2001 compared to $5,912,629 for the year ended June 30, 2000. R&D expenses allocated to PT-141 and MIDAS were $3,761,741 and $1,597,069, respectively, for the year ended June 30, 2001 compared to $1,858,637 and $1,338,353, respectively, for the year ended June 30, 2000.

General and administrative - General and administrative (G& A) expenses decreased to $3,024,841 for the year ended June 30, 2001 compared to $4,567,273 for the year ended June 30, 2000. The decrease in G&A is mainly attributable to the decrease in administrative salaries and payments made in fiscal 2000 related to a terminated merger and significant non-cash, stock based compensation expense recorded in fiscal 2000.

Interest income - Interest income increased to $787,574 for the year ended June 30, 2001 compared to $405,590 for the year ended June 30, 2000. The increase in interest income is due to higher level of funds available for investment due to our financing in September and October of 2000.

Interest expense - Interest expense decreased to $5,104 for the year ended June 30, 2001 compared to $29,247 for the year ended June 30, 2000. The decrease in interest expense was due to the repayment of debt that occurred during the three months ended September 30, 1999.

Net Loss - Increased to $10,599,237 for the year ended June 30, 2001 compared to $8,183,438 for the year ended June 30, 2000. The increase is due to the reduction in grant and contract revenue and the increase in research and development expenses explained above.

Liquidity and Capital Resources

Since inception, we have incurred net operating losses. As of June 30, 2002, we had a deficit accumulated during the development stage of $70,243,616. We have financed our net operating losses through June 30, 2002 by a series of debt and equity financings. At June 30, 2002, we had cash and cash equivalents of $7,944,264 and investments of $1,178,717.

Our product candidates are at various stages of research and development and may never be successfully developed or commercialized. We will need regulatory approval to market LeuTech for diagnosis of appendicitis. PT-141 and MIDAS will require significant further

Table of Contents

research, development and testing. We may experience uncertainties, delays, difficulties and expenses commonly experienced by early stage bio-pharmaceutical companies, which may include unanticipated problems and additional costs relating to:

- the development and testing of products in animals and humans;
- product approval or clearance;

- regulatory compliance;
- good manufacturing practices;
- product introduction; and
- marketing and competition.

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. Any of these possibilities could materially and adversely affect our operations.

For the year ended June 30, 2002, the net decrease in cash and cash equivalents amounted to $3,512,160. Net cash used for operating activities was $13,146,347, net cash used for investing activities was $2,806,516, and net cash provided by financing activities was $12,440,703.

In November 2001 and June of 2002, we received aggregate gross proceeds of $13.44 million in private placements of common stock and warrants. Investors, consisting of domestic and European financial institutions and other accredited investors, purchased approximately 6 million shares of common stock: 4,902,481 shares at $2.25 per share and 1,095,097 shares at $2.20 per share. For every four shares purchased in the November 2001 offering and for every five shares purchased in the June 2002 offering, the investors also received a five-year warrant to purchase one share of common stock at an exercise price of $2.70 for the November 2001 offering and $2.75 for the June 2002 offering. The net proceeds of approximately $12.5 million continue to be used primarily for general corporate purposes, especially for the development and clinical trials of new products based on our proprietary technologies.

In July 2002, we received additional gross proceeds of $1.8 million pursuant to the second tranche of the Spring 2002 private placement of common stock and warrants. Investors, consisting of domestic and European financial institutions and other domestic accredited investors, purchased approximately 1.5 million shares of common stock shares at $1.17 per share. For every five shares purchased, the investors also received a five-year warrant to purchase one share of common stock at an exercise price of $1.46 per share. The net proceeds of approximately $1.7 million will be used primarily for general corporate purposes, especially for the development and clinical trials of new products based on our proprietary technologies.

On May 13, 2002, we entered into an agreement with Mallinckrodt, Inc., a division of Tyco International, Ltd., to amend the strategic collaboration agreement dated as of August 17,

Table of Contents

1999. Under the terms of the original agreement, in addition to other provisions, Mallinckrodt paid us a licensing fee of $500,000 and an additional $13 million to purchase 700,000 restricted unregistered shares of our preferred stock. We shared LeuTech development expenses prior to approval equally with Mallinckrodt up to a cap. Mallinckrodt agreed to pay us milestone payments of an additional $10 million on FDA approval of the first LeuTech indication and on attainment of certain sales goals following product launch. We agreed to arrange for the manufacture of LeuTech and would receive a transfer price on each product unit and a royalty on LeuTech net sales.

Under the terms of the amended agreement, Mallinckrodt has committed up to an additional $3.2 million, subject to certain conditions and attaining certain milestones, to cover half of our estimated expenses associated with completing the FDA review process. Additionally, timing of the $10 million in milestone payments has been revised to coincide with LeuTech's anticipated FDA approval and achievement of future sales goals.

In September and October of 2000, we received approximately $14 million in net proceeds from a private offering consisting of common stock and warrants. Investors, consisting of financial institutions based in Europe,

purchased approximately 1.8 million and 732,000 shares at $6.00 and $5.94 per share, which represented the closing market price of Palatin shares on the American Stock Exchange on September 7, 2000 and October 2, 2000, respectively. For every five shares purchased, the investors also received a five-year warrant to purchase one share of common stock at a 25% premium to the closing price. The net proceeds of approximately $14 million were used primarily for general corporate purposes, especially for the development and clinical trials of new products based on our proprietary technologies.

On July 17, 2002, we moved into our new leased facility of approximately 28,000 square feet in Cranbury, New Jersey that combines both the research and development facility formerly located in Edison, New Jersey and the corporate offices formerly located in Princeton, New Jersey. Our initial cash outlay related to the move was approximately $1.6 million. Minimum annual future lease payments escalate from approximately $920,000 per year to $1,550,000 per year. The lease will expire in July 2012.

We have three license agreements that require minimum yearly payments. Future minimum payments under the license agreements are: 2003 - $300,000, 2004 - $200,000, 2005 - $200,000, 2006 - $200,000 and 2007 - $200,000.

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

We have incurred negative cash flows from operations since our inception, and have expended, and expect to continue to expend in the future, substantial funds to complete our planned product development efforts. We expect that our existing capital resources, including the funds received pursuant to the June and July 2002 private placement, will be adequate to fund

our projected operations through December 2002, based on current expenditure levels. No assurance can be given that we will not consume a significant amount of our available resources before that time. We plan to continue to refine our operations, control expenses, evaluate alternative methods to conduct our business and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements or other resources. Based on our historical ability to raise capital, we believe that through one or a combination of such factors, we will obtain adequate financing to fund our operations through fiscal year 2003, based on current expenditure levels. Should appropriate sources of financing not be available, we would delay certain clinical trials and research activities until such time as appropriate financing was available. There can be no assurance that our financing efforts will be successful. If adequate funds are not available, our financial condition and results of operations will be materially and adversely affected, and we may be forced to cease operations.

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.

Commitments

As outlined in Note 4 of the Notes to our Consolidated Financial Statements, we have entered into various contractual obligations and commercial commitments. The following table summarizes our most significant contractual obligations as of June 30, 2002:

	1 to 3	4 to 5	After 5

Contractual Obligation	years	years	years	Total
Facility leases	$3,875,000	$2,540,000	$6,079,000	$12,494,000

Factors Affecting our Business Condition

In addition to the other information included in this report, the following factors should be considered in evaluating our business and future prospects:

Table of Contents

We expect to continue to incur substantial losses 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, 2002, we had a deficit accumulated during development stage of $70,243,616 and a loss for the year then ended of $16,138,577. We anticipate substantial losses over the next few years associated with the manufacturing and marketing of LeuTech, and continued research and development of PT-141 and MIDAS. If we do not obtain additional funding, our losses will continue to accumulate. We cannot be certain whether additional funds will be available when needed, or on acceptable terms. If we are unable to obtain additional financing as needed, we may reduce the scope of our operations or cease operations, which will have a material adverse effect on our business.

We currently have no product revenues and will need to raise additional capital to operate our business.

To date, we have generated no product revenues. Unless and until we receive approval from the U.S. Federal Drug Administration and other regulatory authorities for our product candidates, we cannot sell our products and will not have product revenues. Therefore, for the foreseeable future, we will have to fund all of our operations and capital expenditures from net proceeds of future offerings and cash on hand. We will need to seek additional sources of financing, which may not be available on favorable terms, if at all. If we do not succeed in raising additional funds on acceptable terms, we may be unable to complete planned pre-clinical and clinical trials or obtain approval of our product candidates from the FDA and other regulatory authorities. In addition, we could be forced to discontinue product development, reduce or forego sales and marketing efforts and forego attractive business opportunities, or cease operations.

We have a limited operating history upon which to base an investment decision.

We are a development-stage company and have not demonstrated our ability to perform the functions necessary for the successful commercialization of any of our product candidates. The successful commercialization of our product candidates will require us to perform a variety of functions, including:

- continuing to undertake pre-clinical development and clinical trials;
- participating in regulatory approval processes;
- formulating and manufacturing products; and
- conducting sales and marketing activities.

Our operations have been limited to organizing and staffing our company, acquiring, developing and securing our proprietary technology and undertaking pre-clinical trials and clinical trials of our principal product candidates. These operations provide a limited basis for you to assess our

ability to commercialize our product candidates and the advisability of investing in our common stock.

We could lose our rights to LeuTech and PT-141, which would adversely affect our potential revenues.

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 technology related to PT-141 are dependent upon an exclusive field-of-use 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.

The FDA may not approve the marketing of LeuTech, which would adversely affect our potential revenues.

We completed clinical trials of LeuTech for the diagnosis of equivocal appendicitis in the spring of 1999. In November 1999, we filed an application with the FDA for approval to market LeuTech for that indication. The FDA has done a complete review of our LeuTech application and on September 23, 2000 sent us a complete review letter requesting additional data on LeuTech manufacturing, product development and process validation. The FDA will not take any further action on our application until we provide the requested information. We are currently in the process of obtaining the data requested by the FDA. This process is uncertain, costly and could require substantial time. If we are able to obtain the requested manufacturing, product development and validation data, we will provide it to the FDA as an amendment to our marketing application. FDA review of the application amendment can be a long and uncertain process. The amendment must demonstrate that we have satisfactorily addressed all of the issues contained in the complete review letter, before the FDA can approve LeuTech for commercial use. We will need to rely on our contract manufacturers to obtain a substantial part of the requested information. We cannot know for certain whether we can provide the requested information, how long it will take, or whether the data we provide will be satisfactory to the FDA. 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.

The results of our clinical trials may not support our product claims.

Even if our clinical trials are completed as planned, we cannot be certain that their results will support our product claims. Success in pre-clinical testing and early clinical trials does not ensure that later clinical trials will be successful, and we cannot be sure that the results of later clinical trials will replicate the results of prior clinical trials and pre-clinical testing. The clinical trial process may fail to demonstrate that our product candidates are safe for humans and effective for indicated uses. This failure would cause us to abandon a product candidate and could delay development of other product candidates. Any delay in, or termination of, our clinical trials will delay or eliminate our ability to commercialize our product candidates and generate product revenues.

Production and supply of LeuTech depends on contract manufacturers over whom we have no control.

We do not have the facilities to manufacture LeuTech. We depend on DSM N.V. 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. Our contract manufacturers must perform LeuTech manufacturing activities in a manner that complies with FDA regulations. Failure to conduct their activities in compliance with FDA regulations could negatively impact our ability to receive FDA approval of LeuTech. The failure of either of these manufacturers to supply these key components of LeuTech, or their inability to comply with FDA manufacturing regulations, could force us to seek other manufacturers and could interfere with our ability to deliver product. Establishing relationships with new suppliers, any of whom must be FDA-approved, is a time-consuming and

costly process.

We have limited or no experience in marketing, distributing and selling diagnostic imaging products and will rely on our marketing partner to provide these capabilities.

If the FDA approves LeuTech for marketing and sale, we will depend on our arrangement with Tyco Healthcare (formerly Mallinckrodt, Inc.), a division of Tyco International, Ltd., to market, sell and distribute LeuTech. Tyco Healthcare is our worldwide (excluding Europe) marketing, sale and distribution partner for LeuTech. If Tyco Healthcare fails to market LeuTech, our potential revenues from the sale of LeuTech will be adversely affected. If the arrangement with Tyco Healthcare fails, we may have difficulty establishing new marketing relationships, and in any event, we will have limited control over these activities.

If LeuTech does not achieve market acceptance, our business will suffer.

Approval of LeuTech for marketing and sale does not assure the product's commercial success. LeuTech, if successfully developed, will compete with drugs manufactured and marketed by major pharmaceutical and other biotechnology companies. Imaging agents such as LeuTech generally take longer to achieve market acceptance following marketing approval than

Table of Contents

other drugs. The degree of market acceptance of LeuTech will depend on a number of factors, including:

- perceptions by members of the health care community, including physicians, about the safety and effectiveness of LeuTech;
- cost-effectiveness of LeuTech relative to competing products;
- availability of reimbursement for our products from government or other healthcare payers;
- the establishment and demonstration of the clinical efficacy and safety;
- potential advantage over alternative treatment methods; and
- reimbursement policies of government and third-party payors.

If LeuTech does not achieve adequate market acceptance, our business, financial condition and results of operations will be adversely affected.

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. Palatin is 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 that there is already an FDA-approved treatment for erectile dysfunction. This product is also approved in Europe, Japan and most of the world's pharmaceutical markets. In addition, we are aware of at least three other products treating erectile dysfunction that have been submitted for approval in the United States, Europe and most of the world’s pharmaceutical markets. Potentially, in order to achieve approval and market acceptance, PT-141 may be required to demonstrate efficacy and safety equivalent or superior to these other products.

The pharmaceutical and diagnostic industries are highly competitive. We are likely to encounter significant competition with respect to LeuTech, PT-141 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 us. These competitive products or technologies may be more effective and useful and less costly than LeuTech, PT-141 or our other potential products. In addition, 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.

Table of Contents

If we fail to adequately protect or enforce our intellectual property rights or secure rights to patents of others, the value of our intellectual property rights would diminish.

Our success, competitive position and future revenues will depend in part on our ability and the abilities of our licensors to obtain and maintain patent protection for our products, methods, processes and other technologies, to preserve our trade secrets, to prevent third parties from infringing on our proprietary rights and to operate without infringing the proprietary rights of third parties. We cannot predict:

- the degree and range of protection any patents will afford us against competitors, including whether third parties will find ways to invalidate or otherwise circumvent our patents
- if and when patents will issue;
- whether or not others will obtain patents claiming aspects similar to those covered by our patents and patent applications; or
- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose.

Our product candidates could infringe the proprietary rights of other parties.

If our products, methods, processes and other technologies infringe the proprietary rights of other parties, we could incur substantial costs and we may have to:

- obtain licenses, which may not be available on commercially reasonable terms, if at all;
- redesign our products or processes to avoid infringement;
- stop using the subject matter claimed in the patents held by others;
- pay damages; or
- defend litigation or administrative proceedings which may be costly whether we win or lose, and which could result in a substantial diversion of our management resources.

Contamination or injury from hazardous materials used in the development of LeuTech, PT-141 and MIDAS could result in liability exceeding our financial resources.

Our research and development of LeuTech, PT-141 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.

We may incur substantial liabilities and may be required to limit commercialization of our products in response to product liability lawsuits.

The testing and marketing of medical products entail an inherent risk of product liability. If we cannot successfully defend ourselves against product liability claims, we may incur substantial liabilities or be required to limit commercialization of our products. Our inability to obtain sufficient product liability insurance at an acceptable cost to protect against potential product liability claims could prevent or inhibit the commercialization of pharmaceutical products we develop, alone or with corporate collaborators. We currently carry product/medical professional liability insurance, which includes liability insurance for our clinical trials. We, or any corporate collaborators, may not be able to obtain insurance at a reasonable cost or in sufficient amounts, if at all. Even if our agreements with any future corporate collaborators entitle us to indemnification against losses, such indemnification may not be available or adequate should any claim arise.

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

The average daily trading volume in our common stock for the 12 month period ended September 26, 2002 was approximately 26,500 shares and the average daily number of transactions was approximately 23 for the same period. If limited trading in our stock continues, it may be difficult for investors to sell their shares in the public market at any given time at prevailing prices.

Our directors, officers and principal stockholders together control approximately 58% of our voting securities, a concentration of ownership which could delay or prevent a change in control.

Our executive officers and directors beneficially own approximately 9% of our voting securities and our 5% or greater stockholders beneficially own approximately 49% 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.

Item 7A. 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 June 30, 2002, our cash and cash equivalents was $7,944,264 and investments, which consisted of commercial paper and government bonds, was $1,178,717. Due to the average maturity and conservative nature of our investment portfolio, we do not believe that short term fluctuations in interest rates would materially affect the value of our securities.

Item 8. Financial Statements and Supplementary Data

Table of Contents
Consolidated Financial Statements

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

	Page
Independent Auditors' Report	33
Report of Independent Public Accountants	34
Consolidated Balance Sheets	35
Consolidated Statements of Operations	36
Consolidated Statements of Stockholders' Equity (Deficit)	37
Consolidated Statements of Cash Flows	42
Notes to Consolidated Financial Statements	44

Table of Contents (Financial)

INDEPENDENT AUDITORS' REPORT

The Board of Directors and Stockholders
Palatin Technologies, Inc.:

We have audited the accompanying consolidated balance sheet of Palatin Technologies, Inc. (a development stage company) and subsidiaries as of June 30, 2002, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for the year then ended, and for the period from January 28, 1986 (inception) through June 30, 2002. 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 audit. The consolidated financial statements of Palatin Technologies, Inc. and subsidiaries as of June 30, 2001 and for each of the years in the two-year period ended June 30, 2001 and for the period from January 28, 1986 (inception) through June 30, 2002, to the extent related to the period from January 28, 1986 (inception) through June 30, 2001, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated September 10, 2001. Our opinion on the consolidated statements of operations, stockholders' equity (deficit) and cash flows, insofar as it relates to the amounts included for the period from January 28, 1986 (inception) through June 30, 2001, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. 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 audit provides a reasonable basis for our opinion.

In our opinion, based on our audit and the report of other of other auditors, the 2002 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Palatin Technologies, Inc. (a development stage company) and subsidiaries as of June 30, 2002, and the results of their operations and their cash flows for the year then ended, and for the period from January 28, 1986 (inception) through June 30, 2002, in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has suffered recurring losses from operations, has an accumulated deficit and has limited liquid resources that raise substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The consolidated financial statements do not include any adjustments that might

result from the outcome of this uncertainty.

/s/ KPMG LLP

Philadelphia, Pennsylvania
September 20, 2002

Table of Contents (Financial)

The following report is a copy of a previously issued Arthur Andersen LLP ("Andersen") report and the report has not been reissued by Andersen. The Andersen report refers to financial statements as of June 30, 2000 and for the year then ended, which are no longer included in the accompanying financial statements.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To 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, 2001 and 2000, 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, 2001 and the period from January 28, 1986 (inception) through June 30, 2001. 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 auditing standards generally accepted in the United States. 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 disclosure 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Palatin Technologies, Inc. and subsidiaries as of June 30, 2001 and 2000 and the results of their operations and their cash flows for each of the three years in the period ended June 30, 2001 and the period from January 28, 1986 (inception) through June 30, 2001, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Philadelphia, Pennsylvania
September 10, 2001

Table of Contents (Financial)

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

	June 30, 2002	June 30, 2001
ASSETS		
Current assets:		
Cash and cash equivalents	$ 7,944,264	$ 11,456,424
Prepaid expenses and other	349,883	204,731
Total current assets	8,294,147	11,661,155

Property and equipment, net	2,416,499	1,924,962
Restricted cash	433,844	613,075
Investments	1,178,717	-
Other	35,009	45,017
	$ 12,358,216	$ 14,244,209
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 1,579,336	$ 1,129,660
Accrued expenses	661,883	397,119
Accrued compensation	236,200	607,286
Accrued litigation settlement	400,000	-
Deferred license revenue	794,018	166,666
Total current liabilities	3,671,437	2,300,731
Deferred license revenue	-	27,778
Commitments and Contingencies (Note 4)		
Stockholders' equity:		
Preferred stock of $.01 par value - authorized 10,000,000 shares;		
Series A Convertible; 26,192 and 29,317 shares issued and outstanding as of June 30, 2002 and 2001, respectively;	262	293
Series C Convertible; 700,000 shares issued and outstanding as of June 30, 2002 and 2001, respectively;	7,000	7,000
Common stock of $.01 par value - authorized 75,000,000 shares;		
Issued and outstanding 17,423,076 and 11,199,658 shares as of June 30, 2002 and 2001 respectively;	174,231	111,997
Additional paid-in capital	78,792,240	65,981,568
Deferred compensation	(53,942)	(80,119)
Accumulated other comprehensive income	10,604	-
Deficit accumulated during development stage	(70,243,616)	(54,105,039)
	8,686,779	11,915,700
	$ 12,358,216	$ 14,244,209

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

Table of Contents (Financial)

PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Consolidated Statements of Operations

	Inception (January 28, 1986) through June 30, 2002	Year Ended June 30, 2002	2001	2000
REVENUES:				
Grants and contracts	$ 9,624,094	$ 80,92	$ 1,621,425	$ 4,617,111
License fees and royalties	2,101,389	200,426	166,667	500,000
Other	318,917	-	-	-
Total revenues	12,044,400	281,355	1,788,092	5,117,111
OPERATING EXPENSES:				
Research and development	54,973,313	12,117,026	10,108,999	9,109,619
General and administrative	27,381,258	5,004,143	3,024,841	4,567,273
Net intangibles write down	259,334	-	-	-
Total operating expenses	82,613,905	17,121,169	13,133,840	13,676,892
OTHER INCOME (EXPENSES):				
Interest income	2,453,579	312,015	787,574	405,590
Interest expense	(1,959,141)	(3,188)	(5,104)	(29,247)
Merger costs	(525,000)	-	-	-
Total other income/(expenses)	(30,562)	308,827	782,470	376,343

Loss before income taxes and cumulative effect of accounting change	(70,600,067)	(16,530,987)	(10,563,278)	(8,183,438)
Income tax benefit	717,562	392,410	325,152	-
Loss before cumulative effect of accounting change	(69,882,505)	(16,138,577)	(10,238,126)	(8,183,438)
Cumulative effect of accounting change (Note 2)	(361,111)	-	(361,111)	-
NET LOSS	(70,243,616)	(16,138,577)	(10,599,237)	(8,183,438)
PREFERRED STOCK DIVIDEND	(3,308,627)	(297,603)	-	-
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(73,552,243)	$(16,436,180)	$(10,599,237)	$(8,183,438)
Basic and diluted net loss per Common share				
Basic and diluted net loss before cumulative effect of accounting change	$ (1.16)	$ $(1.01)	$ (1.10)	
Cumulative effect of accounting change	-	(0.04)	-	
Basic and diluted net loss	$ (1.16)	$ (1.05)	$ (1.10)	
Weighted average number of Common shares outstanding used in computing basic and diluted net loss per Common share	14,195,466	10,131,195	7,441,082	

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

Table of Contents (Financial)

PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock			
	Shares	Amount	Subscriptions	Receivable
Balance at inception	-	$ -	$ -	$ -
Preferred stock subscriptions	-	-	4,000	(4,000)
Net loss from inception	-	-	-	-
Balance, August 31, 1995	-	-	4,000	(4,000)
Preferred stock subscriptions	-	-	(4,000)	4,000
Issuance of Preferred shares	4,000,000	4,000	-	-
Issuance of Common shares on $10,395,400 private placement	-	-	-	-
Shares earned but not issued	-	-	-	-
Net loss	-	-	-	-
Balance, June 25, 1996	4,000,000	4,000	-	-
Conversion to Palatin Technologies, Inc.	(4,000,000)	(4,000)	-	-
Adjusted balance, June 25, 1996	-	-	-	-
Shares outstanding of Palatin Technologies, Inc.	-	-	-	-
Purchase of treasury stock	-	-	-	-
Net loss	-	-	-	-
Balance, June 30, 1996	-	-	-	-
Issuance of Preferred shares, net of expenses	137,780	1,378	-	-
Net loss	-	-	-	-
Balance, June 30, 1997	137,780	1,378	-	-

Issuance of Preferred shares, net of expenses	18,875	189	-	-
Conversion of Preferred shares into Common shares	(49,451)	(495)	-	-
Net loss	-	-	-	-

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

Table of Contents (Financial)

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

	Preferred Stock			
	Shares	Amount	Subscriptions	Receivable
Balance, June 30, 1998	107,204	1,072	-	-
Conversion of Preferred shares into Common shares	(51,145)	(511)	-	-
Net loss	-	-	-	-
Balance, June 30, 1999	56,059	561	-	-
Issuance of Preferred shares, net of expenses	700,000	7,000	-	-
Conversion of Preferred shares into Common shares	(22,498)	(225)	-	-
Net loss	-	-	-	-
Balance, June 30, 2000	733,561	7,336	-	-
Conversion of Preferred shares into Common shares	(4,244)	(43)	-	-
Net loss	-	-	-	-
Balance, June 30, 2001	729,317	7,293	-	-
Conversion of Preferred shares into Common shares	(3,125)	(31)	-	-
Net loss	-	-	-	-
Balance, June 30, 2002	726,192	$ 7,262	$ -	$

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

Table of Contents (Financial)

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

	Common Stock		Additional Paid-In Capital	Earned but not Issued	Treasury Stock	Deferred Compensation	Accumulated Other Comprehensive Income	Deficit Accumulated During Development Stage	Total
	Shares	Amount							
Balance at inception	-	$	$ -	$	- $	$	- $	- $	-
Issuance of shares from inception	6,922,069	1,177,786	100,000	110,833	-	-	-	-	1,388,619
Net loss from inception	-	-	-	-	-	-	-	(4,235,059)	(4,235,059)
Balance, August 31, 1995	6,922,069	1,177,786	100,000	110,833	-	-	-	(4,235,059)	(2,846,440)
Issuance of Preferred shares	-	-	-	-	-	-	-	-	4,000
Issuance of Common shares on $10,395,400 private placement	41,581,600	9,139,303	-	-	-	-	-	-	9,139,303

Shares earned but not issued	-	-	-	266,743	-	-	-	-	266,743
Issuance of Common shares	1,054,548	458,977	(100,000)	(324,546)	-	-	-	-	34,431
Net loss	-	-	-	-	-	-	-	(3,897,879)	(3,897,879)
Balance, June 25, 1996	49,558,217	10,776,066	-	53,030	-	-	-	(8,132,938)	2,700,158
Conversion to Palatin Technologies, Inc.	(46,807,465)	(10,748,558)	10,752,558	-	-	-	-	-	-
Adjusted balance, June 25, 1996	2,750,752	27,508	10,752,558	53,030	-	-	-	(8,132,938)	2,700,158
Shares outstanding of Palatin Technologies, Inc.	108,188	1,082	(1,082)	-	-	-	-	-	-
Issuance of Common shares	25,754	257	139,459	-	-	-	-	-	139,716
Purchase of treasury stock	-	-	-	-	(1,667)	-	-	-	(1,667)
Balance, June 30, 1996	2,884,694	28,847	10,890,935	53,030	(1,667)	-	-	(8,132,938)	2,838,207
Issuance of Preferred shares, net of expenses	-	-	11,635,653	-	-	-	-	-	11,637,031
Shares earned but not issued	-	-	-	250,141	-	-	-	-	250,141
Issuance of Common shares	135,987	1,360	316,761	(303,171)	-	-	-	-	14,950
Retirement of treasury shares	(308)	(3)	(1,664)	-	1,667	-	-	-	-
Issuance of stock options below fair market value	-	-	1,472,716	-	-	(1,472,716)	-	-	-
Amortization of deferred compensation	-	-	-	-	-	394,383	-	-	394,383
Net loss	-	-	-	-	-	-	-	(5,300,164)	(5,300,164)
Balance, June 30, 1997	3,020,373	30,204	24,314,401	-	-	(1,078,333)	-	(13,433,102)	9,834,548
Issuance of Preferred shares, net of expenses	-	-	1,573,295	-	-	-	-	-	1,573,295
Issuance of Preferred shares expense Recapture	-	-	49,733	-	-	-	-	-	49,733
Issuance of Common shares	66,696	666	94,873	-	-	-	-	-	95,539
Issuance of Common shares upon conversion of Preferred shares	1,012,554	10,126	(9,820)	-	-	-	-	-	-

Table of Contents (Financial)

PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)

(continued)

	Common Stock		Additional			Accumulated Other	Deficit Accumulated		
			Paid-In	Earned but	Treasury	Deferred Compensa-	Compre- hensive	During Develop-	
	Shares	Amount	Capital	not Issued	Stock	tion	Income	ment Stage	Total
Issuance of stock options below fair market value	-	-	1,161,156	-	-	(1,161,156)	-	-	-
Amortization of deferred compensation	-	-	-	-	-	1,723,310	-	-	1,723,310
Net loss	-	-	-	-	-	-	-	(9,886,878)	(9,886,878)
Balance, June 30, 1998	4,099,623	40,995	27,183,638	-	-	(516,179)	-	(23,319,980)	3,389,547
Issuance of Common shares	1,842,101	18,421	7,594,182	-	-	-	-	-	7,612,603
Issuance of Common shares upon conversion of Preferred shares	1,115,740	11,158	(10,655)	-	-	-	-	-	(9)
Issuance of Common shares upon exercise of warrants	9,874	99	18,676	-	-	-	-	-	18,775
Issuance of Common shares upon exercise of options	70,257	703	13,348	-	-	-	-	-	14,051
Issuance of stock options below fair market value	-	-	811,054	-	-	(811,054)	-	-	-
Amortization of deferred compensation	-	-	-	-	-	1,308,675	-	-	1,308,675
Net loss	-	-	-	-	-	-	-	(12,002,384)	(12,002,384)
Balance, June 30, 1999	7,137,595	71,376	35,610,243	-	-	(18,558)	-	(35,322,364)	341,258
Issuance of Preferred shares, net of expenses	-	-	12,999,058	-	-	-	-	-	12,999,058
Issuance of Preferred shares	-	-	-	-	-	-	-	-	7,000
Issuance of Common shares upon conversion of Preferred shares	572,374	5,724	(5,462)	-	-	-	-	-	37
Issuance of Common shares upon exercise of warrants	111,551	1,115	451,097	-	-	-	-	-	452,212
Issuance of Common shares upon exercise of options	80,852	809	99,667	-	-	-	-	-	100,476

Acceleration of options previously granted	-	-	1,170,000	-	-	-	-	-	1,170,000
Amortization of stock based compensation	-	-	-	-	-	18,558	-	-	18,558
Net loss	-	-	-	-	-	-	-	(8,183,438)	(8,183,438)
Balance, June 30, 2000	7,902,372	79,024	50,324,603	-	-	-	-	(43,505,802)	6,905,161
Issuance of Common shares, net of expenses	2,532,369	25,324	13,954,928	-	-	-	-	-	13,980,252
Issuance of Common shares upon conversion of Preferred shares	104,886	1,049	(1,006)	-	-	-	-	-	-
Issuance of Common shares upon exercise of warrants	173,015	1,730	486,736	-	-	-	-	-	488,466
Issuance of Common shares upon exercise of options	487,016	4,870	634,883	-	-	-	-	-	639,753

Table of Contents (Financial)

PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)

(continued)

	Common Stock		Additional Paid-In	Accumulated Deficit Earned but	Treasury	Deferred	Accumulated Other Compre-	During
	Shares	Amount	Capital	not Issued	Stock	Compensation	hensive Income	Development Stage	Total
Stock based compensation	-	-	246,109	-	-	(105,534)	-	-	140,575
Acceleration of options previously granted	-	-	335,315	-	-	-	-	-	335,315
Amortization of stock based compensation	-	-	-	-	-	25,415	-	-	25,415
Net loss	-	-	-	-	-	-	-	(10,599,237)	(10,599,237)
Balance, June 30, 2001	11,199,658	111,997	65,981,568	-	-	(80,119)	-	(54,105,039)	11,915,700
Issuance of Common shares, net of expenses	5,997,578	59,976	12,380,727	-	-	-	-	-	12,440,703
Issuance of Common shares upon conversion of Preferred shares	76,590	766	(735)	-	-	-	-	-	-
Issuance of Common shares upon exercise of options	149,250	1,492	339,098	-	-	-	-	-	340,590
Stock based compensation	-	-	91,582	-	-	(21,147)	-	-	70,435
Amortization of stock based compensation	-	-	-	-	-	47,324	-	-	47,324
Unrealized Gain On Investments	-	-	-	-	-	-	10,604	-	10,604
Net loss	-	-	-	-	-	-	-	(16,138,577)	(16,138,577)
Balance, June 30, 2002	17,423,076	$ 174,231	$78,792,240	$	$	- $	(53,942)	$10,604	$(70,243,616)	$ 8,686,779

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

Table of Contents (Financial)

PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

	Inception (January 28, 1986) through June 30, 2002	Year Ended June 30, 2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(70,243,616)	$(16,138,577)	$(10,599,237)	$(8,183,438)

Adjustments to reconcile net loss to net cash used for operating activities:				
Cumulative effect of accounting change	361,111	-	361,111	-
Depreciation and amortization	2,530,730	1,156,874	288,086	248,491
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)	-	-	-
Deferred revenue	432,907	599,574	(166,667)	-
Acceleration of options previously granted	1,505,315	-	335,315	1,170,000
Stock based compensation	4,397,781	458,349	165,990	18,558
Changes in certain operating assets and liabilities:				
Accounts receivable	-	-	953,163	(953,163)
Prepaid expenses and other	(1,151,353)	34,079	111,053	(439,004)
Accounts payable	1,579,336	449,676	117,590	(104,824)
Accrued expenses and other	836,916	293,678	36,239	(296,727)
Net cash used for operating activities	(57,373,583)	(13,146,347)	(8,397,357)	(8,540,107)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sale/(Purchases) of investments, net	(1,172,007)	(1,172,007)	2,155,617	(1,700,790)
Purchases of property and equipment	(4,807,735)	(1,634,509)	(629,899)	(354,019)
Net cash provided/(used) for investing activities	(5,979,742)	(2,806,516)	1,525,718	(2,054,809)
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	(1,951,327)	-	-	-
Proceeds from common stock, stock option and warrant issuances, net	45,088,930	12,440,703	15,108,470	480,708
Proceeds from preferred stock, net	24,210,326	-	-	11,000,000
Purchase of treasury stock	(1,667)	-	-	-
Net cash provided by financing activities	71,297,589	12,440,703	15,108,470	11,480,708
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	7,944,264	(3,512,160)	8,236,831	885,792
CASH AND CASH EQUIVALENTS, beginning of period	-	11,456,424	3,219,593	2,333,801
CASH AND CASH EQUIVALENTS, end of period	$ 7,944,264	$ 7,944,264	$ 11,456,424	$ 3,219,593

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

Table of Contents (Financial)

PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

(continued)

	Inception (January 28, 1986) through	Year Ended June 30,		
	June 30, 2002	2002	2001	2000

SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$ 635,882	$ 3,188	$ 5,104	$ 29,247
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 and warrants issued for expenses	$ 929,909	$	$ 14,144	$ 31,200 $ -
Common stock issued for accrued salaries and bonuses	$ 16,548	$ -	$ -	$ -
Accrued interest payable in Common stock	$ 679,097	$ -	$ -	$ -

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

Table of Contents (Financial)

PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Notes to Consolidated Financial Statements

(1) ORGANIZATION ACTIVITIES:

Nature of Business -- Palatin Technologies, Inc. ("Palatin" or the "Company") is a development-stage bio-pharmaceutical company. The Company is currently conducting clinical investigations with its lead drug, PT-141, for the treatment of male and female sexual dysfunction, and is developing additional therapeutic compounds, discovered using its enabling peptide platform technology, MIDAS(TM). Additionally, Palatin is developing a product for infection imaging, LeuTech(R), based on a proprietary radiolabeled monoclonal antibody.

Business Risk and Liquidity - As shown in the accompanying financial statements, the Company incurred a substantial net loss of $16,138,577 for the year ended June 30, 2002 and has a deficit accumulated in the development stage of $70,243,616, cash and cash equivalents of $7,944,264 and investments of $1,178,717 as of June 30, 2002. The Company anticipates incurring additional losses in the future as it continues development of LeuTech and expands clinical trials for other indications 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.

The Company has incurred negative cash flows from operations since its inception, the Company has expended and expects to continue to expend in the future, substantial funds to complete its planned product development efforts. The Company expects that its existing capital resources, including the funds received pursuant to the July 2002 private placement, will be adequate to fund the Company's projected operations through December 2002, based on current expenditure levels. No assurance can be given that the Company will not consume a significant amount of its available resources before that time. Management plans to continue to refine its operations, control expenses, evaluate alternative methods to conduct its business, and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements or other resources. Based on the Company's historical ability to raise capital, management believes that through one

or a combination of such factors that it will obtain adequate financing to fund the Company's operations through fiscal year 2003, based on current expenditure levels. Should appropriate sources of financing not be available, management would delay certain clinical trials and research activities until such time as appropriate financing was available. There can be no assurance that the Company's financing efforts will be successful. If adequate funds are not available, our financial condition and results of operations will be materially and adversely affected.

These factors raise substantial doubt about the Company's ability to continue as a going concern. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Table of Contents (Financial)

(2) 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 accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Statements of Cash Flows -- Cash and cash equivalents include cash on hand, cash in banks and all highly liquid investments with a maturity of three months or less at the time of purchase. As of June 30, 2002 and 2001, approximately $434,000 and $613,000, respectively, of cash was restricted to secure letters of credit for security deposits on leases.

Investments -- The Company accounts for its investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting For Certain Investments in Debt and Equity Securities." The Company classifies such investments as available for sale investments and as such all investments are recorded at fair value. The investments consist of commercial paper and government bonds. Unrealized gains and losses are classified as a separate component of stockholders' equity. Realized gains and losses are recorded in the statement of operations in the period that the transaction occurs.

Property and Equipment -- Property and equipment consists 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 5 years for equipment, 7 years for office furniture and over the term of the lease for leasehold improvements. Maintenance and repairs are charged to expense as incurred while expenditures that extend the useful life of an asset are capitalized.

Impairment of Long-Lived Assets -- The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, management evaluates 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.

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

In August 1999, the Company entered into a strategic collaboration agreement with Mallinckrodt, Inc., a division of Tyco International, Ltd., to jointly develop and market one of its products (see Note 7). Under the terms

of the agreement, the Company granted a worldwide

Table of Contents (Financial)

license for sales, marketing and distribution and received a nonrefundable licensing fee of $500,000. The licensing fee was recognized as revenue in the period that such nonrefundable fees were received.

In fiscal 2001, the Company adopted U.S. Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101") which requires up-front, nonrefundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 to this license fee resulted in a one-time, non-cash charge of $361,111 or $0.04 per share, which reflects the deferral of the $500,000 up-front license fee received from Mallinckrodt in August 1999. Under SAB 101, this payment has been recorded as deferred revenue to be recognized as license revenue over the remaining development term of this agreement. For the years ended June 30, 2002 and 2001, the Company recognized $138,888 and $166,667, respectively in license revenue that was included in the cumulative effect adjustment as of July 1, 2000. Prior year financial statements have not been restated to apply SAB 101 retroactively; however the following pro forma amounts show the net loss to common stockholders and net loss per share assuming the Company had retroactively applied SAB 101 to the prior years:

	Year Ended June 30,	
	2001	2000
Net loss to common stockholders, as reported	$ (10,599,237)	$ (8,183,438)
Net loss per common share, as reported	$ (1.05)	$ (1.10)
Pro forma net loss to common stockholders	$ (10,238,126)	$ (8,544,549)
Pro forma net loss per common share	$ (1.01)	$ (1.15)

In May 2002, the Company entered into an agreement with Mallinckrodt to amend the original agreement. Under the terms of this amended agreement, Mallinckrodt committed, among other things, up to an additional $3.2 million, subject to certain conditions and attaining certain milestones, to cover half of the Company's estimated expenses associated with completing the FDA review process of LeuTech.

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

Stock Options -- The majority of common stock options issued to employees and non- employee directors have been issued at exercise prices greater than, or equal to, the fair market value of the Company's common stock on the date granted. Accordingly, no value has been assigned to these options. In addition, during the current fiscal year, 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, "Accounting for Stock-Based Compensation" ("SFAS 123"), 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.

Income Taxes -- The Company and its subsidiaries file consolidated federal and combined state income tax returns. The Company accounts for income taxes in accordance with Statementof Financial Accounting Standards No. 109, "Accounting for Income Taxes" ("SFAS 109").

Table of Contents (Financial)

SFAS 109 requires, among other things, the use of the liability method in computing deferred income taxes.

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

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

Net Loss per Common Share -- The Company applies Statement of Financial Accounting Standards No. 128, "Earnings per Share" ("SFAS 128"). SFAS 128 requires dual presentation of basic and diluted earnings per share ("EPS") for complex capital structures on the face of the statement of operations. Basic EPS is computed by dividing the 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, 2002, 2001 and 2000, 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 8,694,199 shares of Common Stock at prices ranging from $0.01 to $21.70 per share were outstanding at June 30, 2002 (See Note 5).

Fair Value of Financial Instruments -- Statement of Financial Accounting Standards No. 107 "Disclosures about Fair Value of Financial Instruments" ("SFAS 107"), 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.

(3) PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	June 30,	
	2002	2001
Office equipment	$ 876,893	$ 570,954
Laboratory equipment	1,071,461	959,258
Leasehold improvements	2,804,040	1,587,673

Table of Contents (Financial)

	June 30,	
	2002	2001
	4,752,394	3,117,885
Less: Accumulated depreciation and amortization	(2,335,895)	(1,192,923)
	$ 2,416,499	$ 1,924,962

For the years ended June 30, 2002, 2001 and 2000, depreciation expense was $1,146,566, $278,078 and $238,483, respectively.

(4) COMMITMENTS AND CONTINGENCIES:

Leases -- The Company currently leases two facilities in New Jersey under non- cancelable operating leases and is in the process of terminating the lease for the Company's former Corporate Offices located in Princeton. In July 2002, the Company moved into a new facility in Cranbury, New Jersey that combined both the research and development facility in Edison, New Jersey and the corporate offices in Princeton, New Jersey. Future minimum lease payments under these two leases are as follows:

Fiscal Year Ending June 30,	
2003	$ 1,140,000
2004	1,315,000
2005	1,420,000
2006	990,000
2007 and thereafter	7,629,000
	$ 12,494,000

The Company has accrued $100,000 related to the estimated costs to terminate the Princeton lease. For the years ended June 30, 2002, 2001 and 2000, rent expense was $656,850, $560,476 and $357,362, respectively.

Employment Agreements -- On July 17, 2001, the Company executed an employment agreement with Perry B. Molinoff, M.D. effective May 1, 2001 and commencing on September 4, 2001. The agreement expires on the second anniversary of the commencement date, provided, however, that on the second anniversary of the commencement date and on each anniversary thereafter, such period shall be automatically extended for additional one-year periods. Pursuant to the agreement, Dr. Molinoff is serving as an executive vice president of the Company in charge of research and development. Under the agreement, Dr. Molinoff was granted options to purchase 245,000 shares of the Company's Common Stock at an exercise price of $3.39. These options vest over the next three anniversaries of the commencement date. The agreement includes specific termination pay and vesting of stock options under certain termination events.

On October 1, 2001, the Company entered into employment agreements with Carl Spana, Ph.D. to serve as chief executive officer and president, and with Stephen T. Wills to serve as

Table of Contents (Financial)

chief financial officer. Pursuant to the agreements, the Company granted Dr. Spana an option to purchase 100,000 shares and Mr. Wills an option to purchase 70,000 share of the Company’s Common Stock at an exercise price of $3.19, the closing price of the Common Stock on October 1, 2001. These options vest over a three-year period with the first 25% vested immediately, and an additional 25% vested on each anniversary of the date of the agreement through October 1, 2004. The agreements include specified termination pay and vesting of stock options under certain termination events.

License Agreements -- The Company has three license agreements that require minimum yearly payments. Future minimum payments under the license agreements are: 2003 - $300,000, 2004 - $300,000, 2005 - $200,000, 2006 - $200,000 and 2007 - $200,000.

Legal Proceedings -- Following the termination of the Company's proposed merger with San Diego-based Molecular Biosystems, Inc. in March 2000, Molecular Biosystems commenced a legal action against the Company, seeking damages arising from the alleged improper termination of the merger agreement. The Company denied the material allegations. In August 2002, in order to avoid the ongoing costs of the litigation and consumption of the Company's time, the Company settled this litigation with Molecular Biosystems for $400,000, which the Company has accrued as of June 30, 2002.

(5) STOCKHOLDERS’ EQUITY (DEFICIT):

Series C Preferred Offering -- As of August 16, 1999, pursuant to the strategic collaboration agreement with Mallinckrodt (see Note 7), the Company sold 700,000 restricted shares of Series C Convertible Preferred Stock for $13,000,000. The Series C stock is convertible into 700,000 shares of Common Stock with certain registration and anti-dilution rights, upon the occurrence of the earlier of five years or the occurrence of a change in control of the Company (as defined in the agreement).

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. The Series B Convertible Preferred Stock has been converted into 56,818 shares of Common Stock.

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 $3.99, so each share of Series A Convertible Preferred Stock is currently convertible into approximately 25.1 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, reclassification, 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 - In private placements of Common Stock and warrants in November 2001 and June 2002, the Company sold and aggregate of 5,997,578 shares of its Common Stock to investors consisting of domestic and European financial institutions and other domestic accredited investors: 4,902,481 shares were sold at $2.25 per share in the November 2001 offering and 1,095,097 shares were sold at $2.20 per share in the June 2002 offering. For every four shares purchased in the November offering, and for every five shares purchased in the June offering, the investors received a five year warrant to purchase one share of common stock at an exercise price of $2.70 for the November offering and $2.75 for the June offering. Based on the sales price of the common stock in these private placements, the exercise prices of certain outstanding warrants were adjusted downward in accordance with the existing terms of those warrants. As a result, a deemed dividend of $297,603 has been reflected in the Company's consolidated statement of operations for year ended June 30, 2002.

In connection with these private placements, the Company paid finder's fees of $771,879 for the November offering and $168,000 for the June offering and issued five year warrants to purchase (i) 356,060 shares of Common Stock at prices ranging from $2.66 to $2.70 per share pursuant to the November offering and (ii) 109,510 shares of Common Stock at $2.75 per share pursuant to the June offering.

In a private placement of Common Stock and warrants in September and October 2000, the Company sold 2,532,368 shares of its Common Stock to a total of nine investors in two tranches: 1,800,000 shares at $6.00 per share and 732,368 shares at $5.94 per share for total net proceeds of approximately $14 million. For every five shares purchased, the investors received an immediately exercisable five-year warrant to purchase one share of Common Stock at 125% of the closing price. As a result, the Company issued warrants to purchase 360,000 shares at an exercise price of $7.50 per share and warrants to purchase 146,472 shares at an exercise price of $7.42 per share.

In connection with the private placement, the Company paid a finder's fee of $1,060,391 and issued five year warrants to the finder to purchase 216,000 shares of Common Stock at $6.60 per share and 87,884 shares of Common Stock at $6.53 per share.

In March 1999, the Company sold in a private placement, an aggregate of 514,215 shares of its 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 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 approximately $222,000 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.

Table of Contents (Financial)

In February 1999, the Company sold in a private placement 651,750 shares of its 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 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 approximately $248,000 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 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, were used for research and development of the dosage form of PT-141, 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.

Outstanding Stock Purchase Warrants - At June 30, 2002, the Company had the following warrants outstanding (prices are rounded to the nearest cent).

Common Stock Shares	Exercise Price per Share	Latest Termination Date
22,000	$ 0.01	03/15/05
48,387	0.22	09/13/05
28,250	2.50	02/15/06
134,188	2.66	10/29/06
15,000	2.70	04/30/07
1,447,495	2.70	10/29/06
328,529	2.75	06/13/07

30,000	2.90	04/06/06
25,000	3.65	12/17/06
15,000	4.00	12/15/10
3,054	4.15	02/15/06
277,818	4.15	06/25/06
978,850	4.37 - 4.70	12/31/03

Table of Contents (Financial)

	Common Stock Shares	Exercise Price per Share	Latest Termination Date
	326,499	4.39	11/09/02
	679,702	4.48 - 5.57	03/12/04
	234,359	6.53 - 7.42	11/20/05
	576,000	6.60 - 7.50	10/05/05
	5,000	7.00	06/05/05
Total	5,175,131	$0.01 - 8.68	

In April 2002, the Company issued warrants to purchase 15,000 shares of its Common Stock at $2.70 per share to Albert Fried, Jr. in consideration for a consulting agreement. These warrants expire on April 30, 2007. Pursuant to SFAS No. 123, the fair value of these warrants, of approximately $14,000, as calculated by the Black-Scholes option pricing model, has been charged to expense in the statement of operations.

In April and December 2001, the Company issued warrants to purchase 30,000 shares of its Common Stock at $2.90 per share and 25,000 shares at $3.65 per share, respectively to the Cedar Brook Corporate Center as part of the consideration for the lease agreement for the Cranbury, NJ facility. These warrants expire 5 years from the date of issuance. Pursuant to SFAS No. 123, the fair value of these warrants, of approximately $47,000, as calculated by the Black-Scholes option pricing model, will be charged ratably to expense in the statement of operations over the lease term of 10 years.

In December 2000, the Company issued warrants to purchase 15,000 shares of its Common Stock at $4.00 per share to the Wistar Institute of Anatomy and Biology, as part of the consideration for an agreement with Wistar to amend a technology license which Wistar previously granted to the Company. The warrants expire on December 15, 2010. The fair value of these warrants, of approximately $31,000 pursuant to SFAS No. 123 as calculated by the Black-Scholes option pricing model, has been charged to expense in the statement of operations.

Stock Option Plans -- The Company has one stock option plan currently in effect under which future grants may be issued, the 1996 Stock Option Plan, as amended, approved by the Company's stockholders on November 15, 2000, for which 5,000,000 shares of Common Stock are reserved. The Company has also granted options under agreements with individuals, and not under any plan.

The Company applies disclosures required by SFAS 123. 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, 2002 would have been $18,096,470 and $1.27 respectively. Net loss and basic and diluted net loss attributable to common stockholders per share for the year ended June 30, 2001 would have been $12,208,350 and $1.21, respectively, while net loss and basic and diluted net loss attributable to common stockholders per share for the year ended June 30, 2000 would have been $10,438,724 and $1.40 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

Table of Contents (Financial)

value at the date of grant for options granted during 2002, 2001 and 2000 is estimated as $2.35, $2.93 and $2.41 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 4.5% in 2002, 5.78% in 2001 and 6.47% in 2000, and an expected option life of 7 years.

The status of the plans and individual agreements during the three years ended June 30, 2002, was as follows:

	Number of shares subject to options	Range of prices per share	Weighted average Prices per share
Outstanding at June 30, 1999	1,975,408	$.20 - $360.00	$4.26
Granted	1,238,210	$.20 - $6.625	
Expired or canceled	(124,264)	$2.50 - $10.85	
Exercised	(80,854)	$.22 - $6.25	
Outstanding at June 30, 2000	3,008,500	$.20 - $360.00	$3.92
Granted	983,125	$2.86 - $6.063	
Expired or canceled	(119,434)	$3.50 - $6.00	
Exercised	(487,016)	$.20 - $3.875	
Outstanding at June 30, 2001	3,385,175	$.22 - $360.00	$4.14
Granted	695,000	$2.86 - $6.063	
Expired or canceled	(411,832)	$3.50 - $6.00	
Exercised	(149,250)	$.20 - $3.875	
Accumulated fractions	(25)	$.22 - $21.70	
Outstanding at June 30, 2002	3,519,068	$.22 - $21.70	$4.30
Exercisable at June 30, 2002	2,477,838	$.22 - $21.70	$4.47

Range of Exercise Prices	Shares Purchasable Under Options	Weighted Average Option Life (Years)	Weighted Average Exercise Price	Shares Exercisable At June 30, 2002	Weighted Average Price Of Exercisable Shares
$0.22 - $0.99	184	3.17	$0.22	184	$0.22
$1.00 - $2.49	74,196	5.74	$1.00	74,196	$1.00
$2.50 - $3.99	1,679,294	7.93	$3.15	1,065,562	$3.05
$4.00 - $5.99	1,334,375	7.52	$4.70	915,212	$4.75
$6.00 - $8.00	396,959	5.22	$6.95	388,624	$6.96
$8.01 - $18.49	12,433	1.11	$18.38	12,433	$18.38
$18.50 - $21.70	21,627	1.41	$21.70	21,627	$21.70

Range of Exercise Prices	Shares Purchasable Under Options	Weighted Average Option Life (Years)	Weighted Average Exercise Price	Shares Exercisable At June 30, 2002	Weighted Average Price Of Exercisable Shares
ALL OUTSTANDING OPTIONS:					
$0.22 - $21.70	3,519,068	7.35	$4.30	2,477,838	$4.47

(6) 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. Based on the Company's historical losses, a valuation allowance for the net deferred tax assets has been recorded at June 30, 2002.

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 past changes in majority ownership, the Company most likely will not be able to fully realize the benefit of its net operating loss carryforwards.

Significant components of the Palatin's deferred tax asset for federal and state purposes is as follows:

	June 30,	
	2002	2001
Net operating loss carryforwards	$ 24,267,000	$ 17,820,000
Research and development tax credits	866,000	716,000
Non-deductible expenses	1,138,000	780,000
	26,271,000	19,316,000
Valuation Allowances	(26,271,000)	(19,316,000)
Net deferred tax assets.....	$ -	$ -

A valuation allowance was established for 100% of the deferred tax assets as realization of such benefits is not assured.

During 2002 and 2001, the Company sold New Jersey State operating loss carryforwards and research and development credits, which resulted in the recognition of $392,410 and $325,152, respectively in tax benefits.

((7) 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 $3,738,000 of the Company's revenues has been derived from federally or state funded grants and contracts. Under federal grants and contracts, there are no

Table of Contents (Financial)

royalties or other forms of repayment; however, in certain limited circumstances the government can acquire rights to technology which is not being commercially exploited.

On May 13, 2002, the Company entered into an agreement with Mallinckrodt, Inc., a division of Tyco International, Ltd., to amend the strategic collaboration agreement dated as of August 17, 1999 for the development of LeuTech. Under the terms of the original agreement, Mallinckrodt paid a licensing fee of $500,000 (see Note 2) and purchased 700,000 restricted unregistered shares of Series C Convertible Preferred Stock for $13,000,000 (see Note 5). The Company shared LeuTech development expenses prior to approval equally with Mallinckrodt. Mallinckrodt agreed to pay the Company milestone payments of an additional $10 million on FDA approval of the first LeuTech indication and on attainment of certain sales goals following product launch. The Company agreed to arrange for the manufacture of LeuTech and would receive a transfer price on each product unit and a royalty on LeuTech net sales.

Under the terms of the amended agreement, Mallinckrodt has committed up to an additional $3.2 million,

subject to certain conditions and attaining certain milestones, to cover half of the Company's estimated expenses associated with completing the FDA review process of LeuTech. Additionally, the timing of the $10 million in future milestone payments has been revised to coincide with LeuTech's anticipated marketing approval and achievement of future sales goals (see Note 2).

During the years ended June 30, 2001 and 2000, the Company recognized $1,400,000 and $4,150,000, respectively, as contract revenue related to the development of LeuTech. The Company did not recognized any contract revenue during the year ended June 30, 2002.

(8) CONSOLIDATED QUARTERLY FINANCIAL DATA -- UNAUDITED:

The following tables provide quarterly data for the fiscal years ended June 30, 2002 and 2001.

	Three Months Ended			
	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
	(amounts in thousands except per share data)			
Total revenues	$ 41	$ 42	$ 99	$ 99
Total operating expenses	3,000	4,266	4,662	5,193
Total other income (expense)	101	79	64	65
Loss before income taxes	(2,858)	(4,145)	(4,499)	(5,029)
Income tax benefit	-	162	230	-
Net loss	(2,858)	(3,983)	(4,269)	(5,029)
Preferred stock dividend	-	(286)	-	(11)
Net loss attributable to common shares	$ (2,858)	$ (4,269)	$ (4,269)	$ (5,040)
Basic and diluted net loss per common share	$ (0.26)	$ (0.33)	$ (0.26)	$ (0.31)

Table of Contents (Financial)

	Three Months Ended			
	September 30, 2001	December 31, 2001	March 31, 2002	June 30, 2002
	(amounts in thousands except per share data)			
Weighted average number of common shares outstanding, used in computing basic and diluted net loss per common share	11,199,611	13,013,547	16,140,790	16,495,204

As previously disclosed in the Company's March 31, 2002 Form 10-Q, the Company had recorded a charge of $916,000 in the quarter ended September 30, 2001 related to the impairment of leasehold improvements at the Company's Edison, New Jersey facility. Given that the Company utilized that facility through June 30, 2002, an impairment charge should not have been taken as previously reported, but rather as a change in the remaining estimated useful life of the leasehold improvements. The Company appropriately accounted for the change in estimated useful life in the previously reported results of operations for the three months ended March 31, 2002, but did not restate the results of operations previously filed for the three months ended December 31, 2001 and September 30, 2001. The above presented quarterly results for the three months ended September 30 and December 31, 2001 reflect the appropriate accounting for the change in estimate, and as a result, do not agree

with quarterly results previously presented in the Company's September 30 and December 31, 2001 Form 10-Qs. The previously reported net loss for the three months ended September 30, 2001 was higher by $744,000 and the net loss for the three months ended December 31, 2001 was lower by $211,000.

	Three Months Ended			
	September 30, 2000	December 31, 2000	March 31, 2001	June 30, 2001
	(amounts in thousands except per share data)			
Total revenues	$ 897	$ 706	$ 143	$ 42
Total operating expenses	3,162	3,093	3,013	3,865
Total other income (expense)	85	278	264	155
Loss before income taxes and cumulative Effect of accounting change	(2,180)	(2,109)	(2,606)	(3,668)
Income tax benefit	-	325	-	-
Loss before cumulative effect of Accounting change	(2,180)	(1,784)	(2,606)	(3,668)
Cumulative effect of accounting change	(361)	-	-	-
Net loss	$ (2,541)	$ (1,784)	$ (2,606)	$ (3,668)
Net loss per share				
Basic and diluted net loss before Cumulative effect of accounting change	$ (0.27)	$ (0,17)	$ (0.24)	$ (0.33)
Cumulative effect of accounting change	(0.04)	-	-	-
Basic and diluted net loss per common share	$ (0.31)	$ (0.17)	$ (0.24)	$ (0.33)
Weighted average number of common shares outstanding, used in computing basic and diluted net loss per common share	8,080,352	10,366,170	11,000,017	11,152,819

Table of Contents

Amounts for each of the first three quarters of fiscal 2001 have been restated to give effect for the implementation of SAB 101 in the fourth quarter retroactively to July 1, 2000. The impact of the change resulted in an increase in total revenues and corresponding decrease in loss before cumulative effect of change in accounting principle of $41,667 for each of the quarters ended March 31, December 31, and September 30 as compared to amounts previously reported in Form 10-Q filed with the SEC.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On August 8, 2002, upon the recommendation and approval of our Audit Committee, we dismissed Arthur Andersen LLP ("Andersen") as our principal independent public accountants and engaged KPMG LLP ("KPMG") as our principal independent public accountants.

In connection with the audits for the two (2) most recent years ended June 30, 2001 and 2000 and the subsequent interim period through the filing date of this Annual Report on Form 10-K, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedures which, if not resolved to the satisfaction of Andersen, would have caused Andersen to make reference to the subject matter of such disagreements in connection with their reports on our consolidated financial statements for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

The reports of Andersen on our consolidated financial statements, as of and for the years ended June 30, 2001 and 2000, did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope, or accounting principles.

We provided Andersen with the foregoing disclosures and requested Andersen to furnish a letter addressed to the Securities and Exchange Commission stating whether it agrees with the above statements. While we have received no information from Andersen that Andersen has a basis for disagreement with such statements, we have been unable to obtain such a letter due to the fact that the personnel primarily responsible for our account (including the engagement partner and manager) have left Andersen.

During the years ended June 30, 2001 and 2000 and through the filing date of this Annual Report on Form 10-K, neither we nor someone on our behalf consulted KPMG regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K.

Table of Contents

PART III

The information required by Part III of Form 10-K under

- Item 10 – Directors and Executive Officers of the Registrant
- Item 11 – Executive Compensation
- Item 12 – Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, except for the information required by Regulation S-K, Item 201(d), which is set forth under Item 5 of this report
- Item 13 – Certain Relationships and Transactions

is incorporated by reference from our definitive proxy statement relating to the 2002 Annual Meeting of Stockholders, which we will file with the SEC within 120 days after our June 30, 2002 fiscal year end.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a) Documents filed as part of the report:

1. Financial statements: the following financial statements are filed as a part of this report under Item 8 - Financial Statements and Supplementary Data:

- Independent Auditors' Report
- Report of Independent Public Accountants
- Consolidated Balance Sheets
- Consolidated Statements of Operations
- Consolidated Statements of Stockholders' Equity (Deficit)
- Consolidated Statements of Cash Flows
- Notes to Consolidated Financial Statements

2. Financial statement schedules: none.

3. Exhibits: The following exhibits are filed with this report, or incorporated by reference as noted. Exhibits filed with this report are marked with an asterisk (*). Exhibits which consist of or include a management contract or compensatory plan or arrangement are marked with an obelisk (†).

No.	Description
3.01	Certificate of incorporation. Incorporated by reference to Exhibit 3.01 of our Form 10-K for the year ended June 30, 2000, filed with the SEC on September 29, 2000.
3.02	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.

Table of Contents

10.01	RhoMed Incorporated 1995 Employee Incentive Stock Option Plan. Incorporated by reference to Exhibit 10.04 of our annual report on Form10-KSB for the period ended June 30, 1996, filed with the SEC on September 27, 1996.
10.02	1996 Stock Option Plan, as amended effective July 1, 1999. Incorporated by reference to Exhibit 10.02 of our amended annual report on Form 10-KSB/A for the period ended June 30, 1999, filed with the SEC on December 28, 1999.
10.03	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. †
10.04	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. †
10.05	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.
10.06	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.
10.07	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.
10.08	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 27, 1996.
10.09	Form of Placement Agent Warrant for the RhoMed common stock offering. Incorporated by reference to Exhibit 10.22 of our annual report on Form 10-KSB for the period ended June 30, 1996, filed with the SEC on September 27, 1996.
10.10	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.
10.11	Stock Purchase Agreement dated as of July 6, 1998, between Palatin and TheraTech, Inc. Incorporated by reference to Exhibit 99.1 of our current report on Form 8-K dated July 8, 1998, filed with the SEC on July 9, 1998.

10.12 Lease between Carnegie 214 Associates Limited Partnership and Palatin Technologies, Inc. dated May 6, 1997. Incorporated by reference to Exhibit 10.26 of our annual report on Form 10-KSB for the year ended June 30, 1997, filed with the SEC on September 26, 1997.

Table of Contents

10.13 Consulting Agreement between Palatin and Summercloud Bay, Inc. Incorporated by reference to Exhibit 10.36 of our annual report on Form 10-KSB/A, Amendment No. 1, dated June 30, 1998, filed with the SEC on October 2, 1998. †

10.14 Strategic Collaboration Agreement dated as of August 17, 1999, between Palatin and Mallinckrodt, Inc. Incorporated by reference to Exhibit 10.21 of our amended annual report on Form 10-KSB/A for the period ended June 30, 1999, filed with the SEC on December 28, 1999.

10.15 Amendment To Strategic Collaboration Agreement dated as of May 13, 2002 between Palatin and Mallinckrodt, Inc. Incorporated by reference to Exhibit 10.1 of our quarterly report on Form 10-Q for the period ended March 31, 2002, filed with the SEC on May 15, 2002. We have obtained confidential treatment of certain provisions contained in Exhibit 10.15. The copy filed as an exhibit omits the information subject to the confidentiality request.

10.16 Form of warrant and registration rights for the warrant issued in April 2000 with an expiration date of March 15, 2005. Incorporated by reference to Exhibit 10.22 of our Form 10-K for the year ended June 30, 2000, filed with the SEC on September 29, 2000.

10.17 Form of stock purchase agreement for our September-October 2000 private placement. Incorporated by reference to Exhibit 10.1 of our report on Form 10-Q for the quarter ended September 30, 2000, filed on November 14, 2000.

10.18 Form of registration rights agreement for the September-October 2000 private placement. Incorporated by reference to Exhibit 10.2 of the registrant's report on Form 10-Q for the quarter ended September 30, 2000, filed on November 14, 2000.

10.19 Form of warrant issued to purchasers in the September-October 2000 private placement. Incorporated by reference to Exhibit 10.3 of the registrant's report on Form 10-Q for the quarter ended September 30, 2000, filed on November 14, 2000.

10.20 Separation Agreement and General Release between Palatin and Charles Putnam, dated as of November 30, 2000. Incorporated by reference to Exhibit 10.1 of our report on Form 10-Q for the quarter ended December 31, 2000, filed on February 14, 2001. †

10.21 Employment Agreement dated as of July 17, 2001, between Palatin Technologies, Inc. and Perry B. Molinoff. Incorporated by reference to Exhibit 10.30 of our annual report on Form 10-K for the period ended June 30, 2001, filed with the SEC on September 28, 2001. †

10.22 Employment Agreement dated as of October 1, 2001, between Palatin Technologies, Inc. and Carl Spana. Incorporated by reference to Exhibit 10.4 of our quarterly report on Form 10-Q for the period ended September 30, 2001, filed with the SEC on November 14, 2001. †

Table of Contents

10.23	Employment Agreement dated as of October 1, 2001, between Palatin Technologies, Inc. and Stephen T. Wills. Incorporated by reference to Exhibit 10.5 of our quarterly report on Form 10-Q for the period ended September 30, 2001, filed with the SEC on November 14, 2001. †
10.24	Form of stock purchase agreement for our October 2001 private placement. Incorporated by reference to Exhibit 10.1 of our report on Form 10-Q for the quarter ended September 30, 2001, filed on November 14, 2001.
10.25	Form of registration rights agreement for our October 2001 private placement. Incorporated by reference to Exhibit 10.2 of the registrant's report on Form 10-Q for the quarter ended September 30, 2000, filed on November 14, 2000.
10.26	Form of warrant issued to purchasers in our October 2001 private placement. Incorporated by reference to Exhibit 10.3 of the registrant's report on Form 10-Q for the quarter ended September 30, 2000, filed on November 14, 2000.
10.27	Form of stock purchase agreement for our June-July 2002 private placement. *
10.28	Form of registration rights agreement for our June-July 2002 private placement. *
10.29	Form of warrant issued to purchasers in our June-July 2002 private placement. *
21	Subsidiaries of the registrant. *
23.1	Consent of KPMG LLP, independent auditors. *

---

* Exhibit filed with this report.

† Management contract

(b) Reports on Form 8-K

We filed one report on Form 8-K during the last quarter of the fiscal year ended June 30, 2002. The report, dated and filed on May 29, 2002, contained an Item 9 disclosure of our announcement of clinical trial results.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

PALATIN TECHNOLOGIES, INC.

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

Date: September 30, 2002

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

Signature	Title	Date

/s/ Carl Spana Carl Spana	President, Chief Executive Officer and Director (principal executive officer)	September 30, 2002
/s/ Stephen T. Wills Stephen T. Wills	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	September 30, 2002
/s/ Perry B. Molinoff Perry B. Molinoff	Executive Vice President of Research & Development and Director	September 30, 2002
/s/ John K.A. Prendergast John K.A. Prendergast	Chairman and Director	September 30, 2002
/s/ Robert K. deVeer, Jr. Robert K. deVeer, Jr.	Director	September 30, 2002
/s/ Kevin S. Flannery Kevin S. Flannery	Director	September 30, 2002
/s/ Zola P. Horovitz Zola P. Horovitz	Director	September 30, 2002
/s/ Robert I. Taber Robert I. Taber	Director	September 30, 2002

Table of Contents

CERTIFICATION BY PRINCIPAL EXECUTIVE OFFICER

I, Carl Spana, certify that:

1. I have reviewed this annual report on Form 10-K of Palatin Technologies, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 30, 2002

/s/ Carl Spana
President and Chief Executive Officer

CERTIFICATION BY PRINCIPAL FINANCIAL OFFICER

I, Stephen T. Wills, certify that:

1. I have reviewed this annual report on Form 10-K of Palatin Technologies, Inc.;

2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or

omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;

3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report.

Date: September 30, 2002

/s/ Stephen T. Wills
Executive Vice President and Chief Financial Officer