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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, 2004

OR

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

For the transition period from _____ to _____

Commission file number 0-22686

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

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]

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes [X] No [ ]

As of September 13, 2004, the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant was approximately $102,282,865, computed by reference to the price at which the

common stock was last sold on December 31, 2003.

As of September 13, 2004, 53,980,506 shares of the registrant's common stock, par value $.01 per share, were outstanding.

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*Incorporated by reference from our definitive proxy statement relating to the 2004 Annual Meeting of Stockholders, which we will file with the Securities and Exchange Commission within 120 days after our June 30, 2004 fiscal year end.

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PART I

Item 1. Business.

Forward-looking statements

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

Overview

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

In August 2004, we entered into a collaboration agreement with King Pharmaceuticals, Inc., a specialty pharmaceutical company, to jointly develop and commercialize PT-141, our lead therapeutic drug candidate for the treatment of both male and female sexual dysfunction.

In July 2004, we announced the receipt of full approval from the U.S. Food and Drug Administration ("FDA") to market NeutroSpec™, our proprietary radiolabeled monoclonal antibody product, for imaging of patients with equivocal signs and symptoms of appendicitis who are five years of age or older. NeutroSpec is marketed and distributed by our strategic collaboration partner, Mallinckrodt Imaging, a business unit of Tyco Healthcare ("Mallinckrodt").

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Our near-term business strategy focuses on the continued development of PT-141 and supporting the commercial launch of NeutroSpec. Our long-term business strategy includes the advancement of our preclinical product pipeline and identification of new product targets through the utilization of our patented drug discovery platform, moving towards the commercialization of a broad portfolio of therapeutic products. Key elements of our business strategy include:

- Selectively entering into alliances and partnerships with pharmaceutical companies to facilitate the development, manufacture, marketing, sale and distribution of our product candidates under investigation;
- Expansion of our pipeline through the utilization of our MC expertise and patented drug discovery platform;
- Opportunistic acquisition of synergistic products and technologies; and
- Partial funding of our development programs with the cash flow from our NeutroSpec and PT-141 collaboration agreements.

We incorporated in Delaware in 1986 and commenced operations in the biopharmaceutical area in 1996. Our executive offices and research facility are located at 4C Cedar Brook Drive, Cranbury, New Jersey 08512 and our telephone number is (609) 495-2200. We maintain an Internet site at http://www.palatin.com, where among other things, we make available free of charge on and through this website our Forms 3, 4 and 5, annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) and Section 16 of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the Securities and Exchange Commission. Our website and the information contained therein or connected thereto shall not be deemed to be incorporated into this annual report on Form 10-K.

Products and Technologies in Research and Development

We are concentrating our efforts on the following proposed products and indications:

PT-141. PT-141, our lead therapeutic drug candidate, is a patented, nasally administered peptide that is in clinical development for the treatment of both male and female sexual dysfunction. PT-141 is a synthetic analog of the naturally occurring hormone alpha-MSH (melanocyte-stimulating hormone). It is an MC receptor based therapeutic. The MSH class of hormones are potent regulators of a variety of physiological and behavioral functions, including the natural physiological sexual response. Our research suggests that PT-141 works through activation of MC receptors in the central nervous system rather than acting directly on the vascular system, which is a different mechanism of action from currently marketed male Erectile Dysfunction ("ED") therapies. As a result, it may offer significant safety and therapeutic benefits over currently marketed products.

We have completed various Phase 1 safety studies and Phase 2A and Phase 2B efficacy studies in male subjects and patients. We plan to initiate an additional Phase 2B efficacy study in male patients with ED during the first half of calendar year 2005. We have completed a Phase 1 safety study in female subjects. We plan to initiate a Phase 2A efficacy study in female patients with Female Sexual Arousal Disorder ("FSAD") during the second half of calendar year 2004.

We completed a Phase 2B at-home dose-ranging study with PT-141 in patients with ED in September 2003 and presented the safety and efficacy data at the 8th Annual Leadership Conference on Sexual, Cardiovascular and Metabolic Syndrome Related Therapies held on November 1, 2003 in Los Angeles. This placebo-controlled, randomized, double-blind, parallel group study enrolled 271 sildenafil-responsive men with mild/moderate and severe ED at 21 sites. Importantly, the trial included patients with co-morbidities such as diabetes, hypertension, hyperlipidemia, and smoking. Participants were confirmed by patient history to be responsive to sildenafil (Viagra®) and had a baseline International Index of Erectile Function – Erectile Function domain (IIEF-EF) score of between six and twenty-one. The IIEF-EF is a standardized sexual function questionnaire used by urologists, which includes questions on a man's ability to achieve and maintain an erection. To evaluate PT-141's effect versus placebo, researchers compared baseline scores with scores reported after treatment. Enrolled patients were randomized to either placebo, 5 mg, 10 mg, 15 mg or 20 mg of PT-141 for a one month treatment period.

Results show that treatment with PT-141 improved patients' erectile function, achieving both clinical and statistical significance for the following parameters ($p < 0.05$ or better):

- IIEF-EF domain scores, the primary efficacy endpoint for the study, at the 10 mg and higher doses relative to placebo;
- Restoration of normal erectile function defined as a score of 26 or more points on the EF domain of the IIEF questionnaire at all four PT-141 doses relative to placebo; and
- Improvement in the quality of erections as assessed by the Global Assessment Questionnaire score was highly significant for all four doses of PT-141 relative to placebo.

All doses of PT-141 demonstrated safety; importantly, there were no reports of hypotension or syncope at any PT-141 dose level. The 5 mg and 10 mg doses were well-tolerated. The most common adverse events in these doses were mild to moderate in intensity and included bad aftertaste, facial flushing, nausea, post-nasal drip, fatigue and headache. Of the 271 patients randomized into the study, approximately 12% discontinued due to adverse events. Discontinuations due to gastrointestinal adverse events were limited almost exclusively to patients taking the 15 mg and 20 mg doses. Patients who took multiple 15 mg and 20 mg doses of PT-141 tolerated the drug well.

A total of 30 patients in this Phase 2B study from five different trial locations who responded to PT-141 and were also sildenafil users were interviewed by an independent market research firm following the study to better understand their experience with PT-141. The research indicates that:

- Approximately 70% of patients considered PT-141 to be as or more effective than sildenafil;
- The quality of erection achieved with PT-141 is perceived to be comparable or superior to sildenafil in 83% of patients;
- PT-141 has a longer duration of action and onset time was more rapid than sildenafil; and
- Many patients highlighted the "initiating" aspect (could feel the drug working) of PT-141 as a positive differentiator to sildenafil.

In May 2004, we announced that Hunter Wessells, M.D., FACS, Associate Professor with the Urology Clinic of the University of Washington, Harborview Medical Center, presented the results of this Phase 2B study at the American Urological Association (AUA) Annual Meeting, which took place in San Francisco May 8 – 13, 2004.

In June 2004, we announced an overview of the positive results from a clinical study evaluating the co-administration of PT-141 and Viagra®. The purpose of the PT-141 and Viagra co-administration clinical study was to evaluate the potential synergistic effect of treating ED patients with both PT-141, which has a novel central nervous system mechanism of action, and Viagra, a peripheral agent which is a type V phosphodiesterase inhibitor. The results of this study indicate that the co-administration of low doses of both PT-141 and Viagra resulted in an increased degree of erectile activity relative to Viagra alone and that patients subjectively reported a better quality of erection relative to Viagra alone.

Study Design

- The objective of this clinical study was to evaluate the efficacy and safety of co-administration of Viagra with PT-141 to 20 patients with ED.

- RigiScan® (a device for impotence testing) monitoring was employed over a six hour monitoring period to evaluate the duration and magnitude of each patient's erectile response. Two 30-minute episodes of visual sexual stimulation (VSS) were included in the six hour RigiScan monitoring period.

- The study was designed as a double-blind, randomized, placebo-controlled, three-way crossover study evaluating the following three treatment arms:

    - " Co-administration ": 25 mg Viagra and 7.5 mg PT-141 intranasal spray;

    - " Viagra-alone ": 25 mg Viagra and placebo intranasal spray;

    - " Placebo ": placebo tablet and placebo intranasal spray.

Study Results

- Over the six hour RigiScan monitoring period, patients receiving the Co-administration treatment had, on average, increased erectile activity as compared to patients receiving either the Viagra-alone or Placebo treatment. The differences were statistically significant.

- Patients were also asked to evaluate the quality of their erection on a visual analog scale (1-10 scale). Patients receiving the Co-administration treatment rated their best erection an average score of 8.2 compared to 6.8 for the Viagra-alone treatment and 5.7 for the Placebo treatment. This difference between Co-administration and Viagra-alone quality-of-erection scores was also statistically significant.

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- Importantly, there were no serious or significant adverse events in the study, including no significant differences in blood pressure, between any of the treatment arms. The only adverse event for patients receiving the Co-administration that was significantly different than either the Viagra-alone or Placebo treatment arms was flushing. Flushing occurred in 21% of patients receiving the Co-administration and 0% of the patients in the Viagra-alone and Placebo treatment arms.

Collaborative Development and Marketing Agreement with King. In August 2004, we entered into a collaboration agreement with King Pharmaceuticals, Inc., a specialty pharmaceutical company, to jointly develop and commercialize PT-141. Pursuant to the terms of the agreement, Palatin has granted King a co-exclusive

license with Palatin to develop and market PT-141 in North America and an exclusive right to collaborate in the licensing or sublicensing the development and marketing of PT-141 with Palatin outside North America. Palatin has the option to create, with King, a urology specialty sales force to co-promote the product in the U.S.

King paid us $20.0 million at closing, $5.0 million of which was designated as an equity investment in Palatin. King may pay potential milestone payments to Palatin totaling up to $100.0 million for achieving certain ED and Female Sexual Dysfunction ("FSD") development and regulatory approval targets, a portion of which would consist of an additional equity investment in Palatin. After regulatory approval and commercialization of PT-141, King may also pay one-time milestone payments to us totaling up to an additional $130.0 million upon achieving specified annual North American net sales thresholds.

Under the terms of the agreement, King and Palatin will share all collaboration development and marketing costs and all collaboration net profits derived from net sales of PT-141 in North America based on an agreed percentage. King and Palatin currently plan to seek a partner for PT-141 for territories outside of North America and will jointly share in collaboration development and marketing costs and all collaboration revenues generated from those territories.

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

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NeutroSpec™. NeutroSpec includes a radioactive technetium-labeled anti-CD 15 monoclonal antibody which selectively binds to a type of white blood cell, neutrophils, involved in the immune response. When injected into the blood stream, NeutroSpec binds to neutrophils accumulated at the infection site, labeling these cells with a radioactive tracer. As a result, physicians can rapidly image and locate an infection using a gamma camera, a common piece of hospital equipment that detects radioactivity within the body. NeutroSpec offers the advantage of direct injection and in vivo labeling of white blood cells, leading to a rapid and highly specific functional image of an infection in less than an hour, whereas the current standard of care, ex vivo radiolabeled white blood cells, requires a blood sample to be taken from the patient, processed by a nuclear pharmacy and then re-injected into the patient, with diagnostic images usually not available until 12-24 hours later.

In July 2004, we announced that we received full approval from the U.S. Food & Drug Administration (FDA) to market NeutroSpec, a novel imaging agent, indicated for imaging of patients with equivocal signs and symptoms of appendicitis who are five years of age or older. NeutroSpec is marketed and distributed by our strategic collaboration partner, Mallinckrodt Imaging, a business unit of Tyco Healthcare ("Mallinckrodt").

We are also conducting additional clinical trials with NeutroSpec to evaluate its market potential as an imaging agent for other indications such as osteomyelitis (infection deep inside a bone), fever of unknown origin, post-surgical abscess, inflammatory bowel disease and pulmonary imaging.

Strategic Collaboration Agreement with Mallinckrodt. On May 13, 2002, we entered into an agreement with Mallinckrodt 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 $13.0 million to purchase 700,000 restricted unregistered shares of our preferred stock. We shared NeutroSpec development expenses prior to FDA approval equally with Mallinckrodt. Mallinckrodt agreed to pay us

milestone payments of an additional $10.0 million on FDA approval of the first NeutroSpec indication and on attainment of certain sales goals following product launch. We agreed to be responsible for the manufacture of NeutroSpec and Mallinckrodt agreed to pay us a transfer price on each product unit transferred to Mallinckrodt and a royalty on the net sales of NeutroSpec.

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 offset a portion of the estimated expenses associated with completing the FDA review process. Additionally, timing of the original $10.0 million in milestone payments was revised to coincide with NeutroSpec's FDA approval and achievement of future sales goals. The $3.2 million has been paid in full as of March 31, 2004 and we received $2.0 million on August 6, 2004 upon FDA approval.

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

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We believe that NeutroSpec may improve patient diagnosis for appendicitis and that it has the potential to improve diagnosis of other acute and chronic infections, such as osteomyelitis, fever of unknown origin, post-surgical abscess, inflammatory bowel disease and pulmonary imaging. In 2003, over 700,000 patients were diagnosed with NeutroSpec's target indications.

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

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

We have recently identified a series of lead compounds that decrease food intake and body weight in normal and genetically-obese animals. In June 2004, we announced that data on this activity of our lead series of melanocortin receptor, small molecule agonists, under development for the treatment of obesity, were presented at the 8th Annual American Neuroendocrine Society (ANS) Neuroendocrine Workshop. The ANS Workshop, titled "Neuroendocrinology of Energy Balance and Obesity," took place June 13, 2004 at the Hotel Monteleone in New Orleans, LA.

Generation of commercially viable protein and peptide drug molecules with desirable properties continues to

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

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Research and Development. Our current research and development efforts primarily focus on melanocortin based therapeutics. We believe our technologies will facilitate the development of a portfolio of potential products. Over the last three fiscal years, we have spent the following amounts on company-sponsored research and development activities:

- year ended June 30, 2004: $23.3 million
- year ended June 30, 2003: $17.4 million
- year ended June 30, 2002: $12.1 million

Competition

Our products under development will compete on the basis of quality, performance, cost effectiveness, and application suitability with numerous established products and technologies. Additional products using new technologies which may be competitive with our proposed products may also be introduced by others. Many of the companies selling or developing competitive products have financial, manufacturing and distribution resources significantly greater than ours.

The pharmaceutical and biotechnology industry is characterized by extensive research efforts and rapid technological change and there are many companies that have developed or are working to develop products similar to ours. There are currently several FDA-approved drugs for ED in the United States and in certain foreign markets. We are aware of several products under clinical development for both MED and FSAD. We cannot assure you that our competitors will not succeed in the future in developing products that are more effective than any that we are developing. We believe that our ability to compete in the sexual dysfunction market depends on a number of factors including the success and timeliness with which we complete FDA trials, the breadth of applications, if any, for which our products receive approval, and the effectiveness, cost, safety and ease of use of our products in comparison to the products of our competitors.

We are aware of one company marketing an antibody-based product which may compete with NeutroSpec as to certain indications. The competing product is marketed in some European countries. We are also aware of at least one other company developing a peptide-based product which may also compete with NeutroSpec 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 have many competitors, including pharmaceutical and biotechnology companies. Many of these competitors have substantially greater capital and other resources than we do and may represent significant competition for us. Such companies may succeed in developing technologies and products that are more effective or less costly than any of those that we may develop. Such companies may be more successful than us in developing, manufacturing and marketing products. Furthermore, there are several well-established products in our target markets that we will have to compete against. We cannot guarantee that we will be able to compete successfully in the future or that developments by others will not render our proposed products under development or our future product candidates obsolete or non-competitive or that our collaborators or customers will not choose to use competing technologies or products.

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 and products in the United States and, selectively, in those foreign countries where protection is important to the development of our business.

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 an issued United States patent and pending United States and foreign applications covering PT-141. The claims of 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 NeutroSpec 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 NeutroSpec or by our methods of making PT-141 and NeutroSpec, 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, 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 to, among other things, 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, withdrawal of approvals 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 safety and effectiveness 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 approval of either a biologics license application or new drug application from the FDA for any of our proposed products; any facility that manufactures such a product must comply with current good manufacturing practices. This means, among other things, that the drug manufacturing establishment must be registered with, and will be inspected by, the FDA. Foreign manufacturing establishments must also 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 NeutroSpec and PT-141. We currently have agreements in place for the manufacture of NeutroSpec. We anticipate that contract manufacturing establishments will continue to manufacture PT-141 and proposed products resulting from MIDAS technology.

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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 the product has been approved by the FDA for the indication for which the claim is being made and the use of the product is safe and efficacious, neither experimental nor investigational, medically necessary, appropriate for the specific patient and cost effective. Since reimbursement by one payor does not guarantee reimbursement by another, we may be required to seek approval from each payor individually. Seeking such approvals is a time-consuming and costly process. Third-party payors routinely limit the product that they will cover and the amount of money that they will pay 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 once approved, or that the reimbursement, if obtained, will be adequate. Less than full reimbursement by governmental and other third-party payors for our proposed products would adversely affect the market acceptance of these proposed 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 proposed products will need to 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 of our proposed products in commercial quantities under good manufacturing practices. We intend to rely on collaborators, licensees or contract manufacturers for the commercial manufacture of our proposed products.

We are dependent on DSM N.V. of the Netherlands for the manufacture of the NeutroSpec drug substance and intermediate drug product stages and on Ben Venue Laboratories of Cleveland, Ohio for the manufacture of the NeutroSpec drug product stage. The failure of either of these manufacturers to comply with FDA current good manufacturing practices or to supply these key components of NeutroSpec 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.

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Proposed products resulting from PT-141 and our MIDAS technology are synthetic peptides. The peptides are synthesized from readily available amino acids, and the production process involves well-established technology. We currently contract with third-party manufacturers for the production of peptides and anticipate doing so in the future.

We rely on our arrangement with Mallinckrodt to market, sell and distribute NeutroSpec. We have limited control over these activities.

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

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 $10.0 million coverage in the aggregate as to product and to certain clinical trial risks.

Employees

As of September 1, 2004, we employed 66 persons full time, of whom 56 are engaged in research and development activities and 10 are engaged in administration and management. 21 of our employees hold Ph.D. degrees. 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, NJ 08512, 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, and we have sublet approximately 7,300 square feet to a third party under a lease which expires December 15, 2004. The leased properties are in good condition.

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Item 3. Legal Proceedings.

There are no material legal proceedings pending against us.

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, 2004.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

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, 2002.

YEAR ENDED JUNE 30, 2004	HIGH	LOW
Fourth Quarter	$4.49	$3.35
Third Quarter	$4.24	$2.55
Second Quarter	$5.89	$2.19
First Quarter	$5.25	$2.66

YEAR ENDED JUNE 30, 2003	HIGH	LOW

Fourth Quarter	$4.01	$1.62
Third Quarter	$1.93	$1.29
Second Quarter	$2.10	$1.11
First Quarter	$2.20	$1.10

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Holders of common stock. On September 8, 2004, we had approximately 280 holders of record of common stock. On September 8, 2004 the closing sales price of our common stock as reported on the AMEX was $2.82 per share.

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 outstanding Series A Preferred Stock, consisting of 11,697 shares, provides that 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 the Series A Preferred Stock.

Securities authorized for issuance under equity compensation plans.

EQUITY COMPENSATION PLAN INFORMATION
AS OF JUNE 30, 2004

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (1)	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 (2)	4,755,684	$3.45	355,956
Equity compensation plans not approved by security holders	1,456,187	$3.14	0
Total	6,211,871		355,956

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(1) Does not include a total of 19 shares of aggregate fractions. No fractional shares will be issued on exercise of options or warrants.

(2) Includes individual option and warrant agreements we assumed when we merged with RhoMed Incorporated in 1996. Options and warrants to purchase 471,127 shares of common stock are outstanding under the assumed agreements, with a weighted average exercise price of $2.03 per share. No additional options or warrants are available for issuance under the assumed agreements, except that the number of shares purchasable under certain warrants may increase due to anti-dilution provisions.

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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 already registered for resale the common stock underlying all of these options and warrants.

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

- 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 per share 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 15,125 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.

- Wistar Institute of Anatomy and Biology warrants, dated May 13, 2002: provided common stock purchase warrants to a technology licensor to purchase 15,000 shares at $2.82 per share, with an expiration date of May 13, 2012.

- Placement warrants: provided common stock purchase warrants as compensation to various private offering placement agents to purchase an aggregate of 1,318,230 shares. These warrants have the following share amounts, prices (rounded to the nearest cent) and expiration dates:

Offering	Shares Purchasable	Exercise Price	Expiration Date
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
June 2002	109,510	$2.75	06-13-07
July 2002	51,502	$1.46	07-29-07
July 2002	38,627	$1.37	07-29-07
Fall 2002	458,647	$1.54	11-15-07

Recent sales of unregistered securities. In January 2004, we concluded a private placement of common stock and warrants in which we sold 6,992,500 shares of our $0.01 par value common stock at an offering price of $3.25 per share. The investors also received 15% warrant coverage on the number of shares they purchased. Each five-year warrant entitles the holder to purchase one share of common stock at an exercise price of $4.06 per share. The gross proceeds were approximately $22.7 million and the net proceeds were approximately $21.0 million. We made the private placement solely to financial institutions and accredited investors pursuant to Regulation D under the Securities Act of 1933. The investors represented to us that they were purchasing the securities for their own accounts for investment and not with a view toward resale or distribution to others. The certificates representing the shares of common stock and warrants bear restrictive legends. A registration statement covering the resale of the shares by the investors was filed and subsequently declared effective by the Security and Exchange Commission in April 2004. In connection with the private placement, we paid placement fees totaling approximately $1.7 million.

Item 6. Selected Consolidated 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 consolidated financial statements, and the “Management’s Discussion and Analysis of Financial Condition and Results of Operations” in Item 7 of this report.

SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)

	Year Ended June 30,				
	2004	2003	2002	2001	2000
STATEMENT OF OPERATIONS DATA:					
REVENUES					
Grants and contracts	$ 2,150	$ 641	$ 81	$ 1,621	$ 4,617

License fees and royalties	165	629	200	167	500
Total revenues	2,315	1,270	281	1,788	5,117
OPERATING EXPENSES					
Research and development	23,333	17,439	12,117	10,109	9,110
General and administrative	5,740	4,867	5,004	3,025	4,567
Total operating expenses	29,073	22,306	17,121	13,134	13,677
OTHER INCOME (EXPENSE)					
Investment income, net of realized loss	222	248	312	788	405
Interest expense	(23)	(22)	(3)	(5)	(29)
Total other income	199	226	309	783	376
Loss before income taxes and cumulative effect of accounting change	(26,559)	(20,810)	(16,531)	(10,563)	(8,184)
Income tax benefit	241	245	392	325	--
Loss before cumulative effect of accounting change	(26,318)	(20,565)	(16,139)	(10,238)	(8,184)
Cumulative effect of accounting change (1)	--	--	--	(361)	--
NET LOSS	(26,318)	(20,565)	(16,139)	(10,599)	(8,184)
DEEMED DIVIDEND	--	(203)	(297)	--	--
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$ (26,318)	$ (20,768)	$ (16,436)	$ (10,599)	$ (8,184)
Basic and diluted net loss attributable to common stockholders before cumulative effect of accounting change	$ (0.55)	$ (0.73)	$ (1.16)	$ (1.01)	$ (1.10)
Cumulative effect of accounting change (1)	--	--	--	(0.04)	--
Basic and diluted net loss attributable to common stockholders per common share	$ (0.55)	$ (0.73)	$ (1.16)	$ (1.05)	$ (1.10)
Weighted average common shares outstanding	47,688	28,362	14,195	10,131	7,441

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Pro forma amounts assuming accounting change applied retroactively:		
Net loss attributable to common stockholders	$ (10,238)	$ (8,545)
Basic and diluted net loss attributable to common stockholders per common share	$ (1.01)	$ (1.15)

BALANCE SHEET DATA (AT PERIOD END):					
Cash, cash equivalents and investments	$ 20,412	$ 18,383	$ 9,105	$ 11,456	$ 5,375
Property and equipment, net	2,935	3,399	2,416	1,925	1,573
Working capital	15,879	14,742	5,783	9,360	4,528
Total assets	24,379	22,721	12,358	14,244	8,885
Long term debt, net of current portion	30	76	--	--	--
Stockholders' equity	19,387	18,657	8,687	11,916	6,905

(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 consolidated financial statements filed as part of this annual report on Form 10-K.

Critical Accounting Policies.

Our significant accounting policies are described in Note 2 to the consolidated financial statements included in this annual report on Form 10-K. We believe our most critical accounting policy is revenue recognition. Revenue from corporate collaborations and licensing agreements consists of up-front fees, research and development funding, and milestone payments. Non-refundable up-front fees are deferred and amortized to revenue over the related performance period. We estimate our performance period as the initial research term. The actual performance period may vary. We adjust the performance period estimate based upon available facts and circumstances. Periodic payments for research and development activities and government grants are recognized over the period that we perform the related activities under the terms of the agreements. Revenue resulting from the achievement of milestone events stipulated in the agreements is recognized when the milestone is achieved. Milestones are based on the occurrence of a substantive element specified in the contract or as a measure of substantive progress towards completion under the contract.

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Certain Recent Significant Events

In August 2004, we entered into a collaboration agreement with King Pharmaceuticals, Inc., a specialty pharmaceutical company, to jointly develop and commercialize PT-141, our lead therapeutic drug candidate for the treatment of both male and female sexual dysfunction.

In July 2004, we announced the receipt of full approval from the FDA to market NeutroSpec, our proprietary radiolabeled monoclonal antibody product, for imaging of patients with equivocal signs and symptoms of appendicitis who are five years of age or older. NeutroSpec is marketed and distributed by our strategic collaboration partner, Mallinckrodt.

In January 2004, we concluded a private placement of our common stock and warrants, which yielded gross proceeds of approximately $22.7 million. Investors, consisting of domestic financial institutions and other accredited investors, purchased 6,992,500 shares of common stock and 1,048,875 warrants, which equates to 15% warrant coverage on the number of shares they purchased, at an offering price of $3.25 per share. Each warrant entitles the purchaser to purchase one share of common stock at an exercise price of $4.06 per share.

Results of Operations

Year Ended June 30, 2004 Compared to the Year Ended June 30, 2003

Grants and contracts – For the year ended June 30, 2004, we recognized $2.0 million in contract revenue related to the shared development costs of NeutroSpec pursuant to our collaboration agreement with Mallinckrodt, as compared to $504,000 in contract revenue for the year ended June 30, 2003. The increase in contract revenue was attributable to additional shared development costs of NeutroSpec pursuant to the amended collaboration agreement. For the year ended June 30, 2004, we recorded $149,738 in grant revenue pursuant to the Small Business Technology Transfer programs of the Department of Health and Human Services compared to $137,417 for the year ended June 30, 2003.

License Fees and Royalties – During the year ended June 30, 2001, we adopted 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 reflected the deferral of an up-front license fee received from Mallinckrodt, Inc. related to licensing of NeutroSpec 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, 2004, we recorded $165,420 of license revenue compared to $628,598 of license revenue recorded for the year ended June 30, 2003. Of the license revenue recorded for the year ended June 30, 2004, $11,569 was included in the cumulative effect adjustment as of July 1, 2000 and $153,851 was recorded as a result of the initial $800,000 payment received from Mallinckrodt pursuant to our amended collaboration agreement in May 2002. Of the license revenue recorded for the year ended June 30, 2003, $43,987 was included in the cumulative effect adjustment as of July 1, 2000 and $584,611 was recorded as a result of the initial $800,000 payment received from Mallinckrodt.

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Research and development – Research and development (R&D) expenses increased to $23.3 million for the year ended June 30, 2004 compared to $17.4 million for the year ended June 30, 2003. The increase in R&D was primarily related to our increased development efforts and expanding clinical trials of PT-141 and NeutroSpec. Our R&D efforts, and their respective allocated costs, are currently concentrated on the following:

- PT-141 — to date we have incurred approximately $33.8 million in allocated R&D expenses. For the year ended June 30, 2004, approximately $11.7 million of R&D expense was related to PT-141 compared to approximately $9.0 million for the year ended June 30, 2003. We anticipate incurring approximately $10.0 million of expenses over the next 12 months as we progress with our clinical trials and product development programs.

- NeutroSpec — to date we have incurred approximately $48.8 million in allocated R&D expenses. For the year ended June 30, 2004, approximately $8.2 million of R&D expense was related to NeutroSpec compared to approximately $5.4 million for the year ended June 30, 2003. We anticipate incurring approximately $1.0 million of additional development expenses over the next 12 months to evaluate its market potential as an imaging agent for other indications such as osteomyelitis (infection deep inside a bone), fever of unknown origin, post-surgical abscess, inflammatory bowel disease and pulmonary imaging.

- MIDAS — to date we have incurred approximately $13.1 million in allocated R&D expenses. For the year ended June 30, 2004, approximately $3.4 million of R&D expense was related to MIDAS compared to approximately $3.0 million for the year ended June 30, 2003. Based on this effort, we have identified several molecules that are now in preclinical development as potential treatments for obesity, sexual dysfunction and inflammation. We anticipate incurring approximately $1.0 million of expenses over the next 12 months.

General and administrative – General and administrative (G&A) expenses increased to $5.7 million for the year ended June 30, 2004 compared to $4.9 million for the year ended June 30, 2003. The increase in G&A expenses is primarily attributable to the increases in marketing and business development expenses, salaries and other stock based compensation and related personnel expenses.

Investment income – Interest income increased to $350,999 for the year ended June 30, 2004 compared to $247,552 for the year ended June 30, 2003. The increase in interest income is attributable to higher amounts of cash, cash equivalents and investments available for investment purposes. Realized losses on the sale of investments were $129,355 for the year ended June 30, 2004 compared to no realized gains or losses for the year ended June 30, 2003.

Income tax benefit — During 2004 and 2003, the Company sold New Jersey State net operating loss carryforwards and research and development credits, which resulted in the recognition of $240,836 and $245,093 of income tax benefits, respectively. Assuming the State of New Jersey continues to fund this program, which is uncertain, the actual amount of net operating losses and tax credits we may sell will also depend upon the allocation among qualifying companies of an annual pool established by the State of New Jersey.

Deemed dividend — Based on the sales price of the common stock in private placements, the exercise prices of certain outstanding warrants were adjusted downward in accordance with their existing terms. As a result, a deemed dividend of $203,138 has been reflected in the Company's consolidated statement of operations for the year ended June 30, 2003. There was no deemed divided reflected in the Company's consolidated statement of operations for the year ended June 30, 2004 since there was no downward adjustment of the exercise prices of certain outstanding warrants.

Year Ended June 30, 2003 Compared to the Year Ended June 30, 2002

Grants and contracts – For the year ended June 30, 2003, we recognized $504,000 in contract revenue related to the shared development costs of NeutroSpec pursuant to our collaboration agreement with Mallinckrodt, as compared to no recognition of contract revenue for the year ended June 30, 2002. The increase in contract revenue was attributable to additional shared development costs of NeutroSpec pursuant to the amended collaboration agreement. For the year ended June 30, 2003, we recorded $137,417 in grant revenue pursuant to the Small Business Technology Transfer programs of the Department of Health and Human Services compared to $80,929 for the year ended June 30, 2002.

License Fees and Royalties – During the year ended June 30, 2001, we adopted 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 reflected the deferral of an up-front license fee received from Mallinckrodt related to licensing of NeutroSpec 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, 2003, we recorded $628,598 of license revenue compared to $200,426 of license revenue recorded for the year ended June 30, 2002. Of the license revenue recorded for the year ended June 30, 2003, $43,987 was included in the cumulative effect adjustment as of July 1, 2000 and $584,611 was recorded as a result of the initial $800,000 payment received from Mallinckrodt pursuant to our amended collaboration agreement in May 2002. Of the license revenue recorded for the year ended June 30, 2002, $138,888 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.

Research and development – Research and development (R&D) expenses increased to $17.4 million for the year ended June 30, 2003 compared to $12.1 million for the year ended June 30, 2002. The increase in R&D was primarily related to our increased development efforts and expanding clinical trials of PT-141 and NeutroSpec.

General and administrative – General and administrative (G&A) expenses decreased to $4.9 million for the year ended June 30, 2003 compared to $5.0 million for the year ended June 30, 2002. The decrease in G&A expenses is primarily attributable to the reduction in legal expenses since the settlement with Molecular Biosystems in August 2002, which was accrued as of June 30, 2002.

Interest income – Interest income decreased to $247,552 for the year ended June 30, 2003 compared to

$312,015 for the year ended June 30, 2002. The decrease in interest income is attributable to lower average amounts of cash, cash equivalents and investments available for investment purposes throughout the year and the decrease in interest rates these investments earn.

Income tax benefit — During 2003 and 2002, the Company sold New Jersey State net operating loss carryforwards and research and development credits, which resulted in the recognition of $245,093 and $392,410 of income tax benefits, respectively. Assuming the State of New Jersey continues to fund this program, which is uncertain, the actual amount of net operating losses and tax credits we may sell will also depend upon the allocation among qualifying companies of an annual pool established by the State of New Jersey.

Deemed dividend — Based on the sales price of the common stock in private placements, the exercise prices of certain outstanding warrants were adjusted downward in accordance with their existing terms. As a result, a deemed dividend of $203,138 and $297,603 has been reflected in the Company's consolidated statement of operations for the years ended June 30, 2003 and 2002, respectively. The decrease in deemed dividend between years is primarily the result of the difference in the sales price of the common stock in the private placements and the changes to the total securities outstanding during 2003 compared to 2002.

Liquidity and Capital Resources

Since inception, we have incurred net operating losses. As of June 30, 2004, we had a deficit accumulated during the development stage of $117.1 million. We have financed our net operating losses through June 30, 2004 by a series of debt and equity financings. As of June 30, 2004, we had cash and cash equivalents of $17.9 million and investments of $2.5 million. On January 28, 2004, we completed a private placement of our common stock and warrants, which yielded gross proceeds of approximately $22.7 million. Pursuant to the private placement, investors purchased approximately 7 million shares of common stock at $3.25 per share and received five year warrants to purchase approximately 1 million shares of common stock at an exercise price of $4.06 per share. The net proceeds of approximately $21.0 million are being used for the continued development of PT-141, NeutroSpec, drug discovery efforts and general corporate purposes. On August 17, 2004, we received $20.0 million upon the closing of the collaborative agreement with King Pharmaceuticals, Inc.

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

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

During the year ended June 30, 2004, our operating activities used net cash of $23.7 million and during the year ended June 30, 2003 our operating activities used net cash of $19.9 million. The increase resulted primarily from increased R&D spending on both PT-141 and NeutroSpec.

During the year ended June 30, 2004, cash provided by investing activities was $1.2 million, consisting of $198,000 used for the purchase of capital expenditures and $1.4 million provided by the sale of investment

securities. During the year ended June 30, 2003, we used cash in investing activities of $4.1 million, consisting of $1.1 million of capital expenditures and $3.0 million for investment securities.

During the year ended June 30, 2004, net cash provided by financing activities was $26.2 million, consisting of $26.4 million in proceeds from the issuance of common stock and warrants in private placements and the exercise of options and warrants, partially offset by $200,753 for payments on capital lease obligations. During the year ended June 30, 2003, net cash provided by financing activities was $30.3 million, consisting of $30.5 million in proceeds from the issuance of common stock and warrants in private placements, partially offset by $153,473 of payments on capital lease obligations.

In January 2004, we concluded a private placement of our common stock and warrants, which yielded gross proceeds of $22.7 million. Investors, consisting of domestic financial institutions and other accredited investors, purchased 7.0 million shares of common stock and 1.0 million warrants, which equates to 15% warrant coverage on the number of shares they purchased, at an offering price of $3.25 per share. Each warrant entitles the purchaser to purchase one share of common stock at an exercise price of $4.06 per share. The net proceeds were $21.0, which continue to be used primarily for general corporate purposes, especially for the development and clinical trials of new products based on our proprietary technologies.

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In November 2002 and March 2003, we received aggregate gross proceeds of $30.6 million in private placements of common stock and warrants. Investors, consisting of domestic and European financial institutions and other accredited investors, purchased 22.8 million shares of common stock: 9,373,940 shares at $1.23 per share and 13,433,096 at $1.42 per share. For every five shares purchased in the November 2002 offering and for every four shares purchased in the March 2003 offering, the investors also received a five-year warrant to purchase one share of common stock at an exercise price of $1.54 for the November 2002 offering and $1.77 for the March 2003 offering. The net proceeds of $28.8 million were 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 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 $1.7 million were 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 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 $13.0 million to purchase 700,000 restricted unregistered shares of our preferred stock. We shared NeutroSpec development expenses prior to FDA approval equally with Mallinckrodt. Mallinckrodt agreed to pay us milestone payments of an additional $10.0 million on FDA approval of the first NeutroSpec indication and on attainment of certain sales goals following product launch. We agreed to arrange for the manufacture of NeutroSpec and we would receive a transfer price on each product unit and a royalty on NeutroSpec net sales.

Under the terms of the amended agreement, Mallinckrodt committed up to an additional $3.2 million, subject to certain conditions and attaining certain milestones, to offset a portion of the estimated expenses associated with completing the FDA review process. Additionally, timing of the $10.0 million in milestone payments has been revised to coincide with NeutroSpec's FDA approval and achievement of future sales goals. All of the $3.2 million and $2.0 million, upon FDA approval, of the milestone payments has been paid to date.

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. Minimum annual lease payments escalate currently from approximately $925,000 per year to $1.6 million per year in 2007. The lease will expire in July 2012.

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We have three license agreements that require minimum yearly payments. Future minimum payments under the license agreements are: 2005 — $500,000, 2006 — $200,000, 2007 — $200,000, 2008 — $200,000 and 2009 — $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 from King in August 2004, will be adequate to fund the Company's projected operations through the fiscal year ending June 30, 2005, based on current and projected expenditure levels. No assurance can be given that we will not consume a significant amount of our available resources before that time. We plan to continue to refine our operations, control expenses, evaluate alternative methods to conduct our business and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements or other resources. Should appropriate sources of financing not be available, we would delay certain clinical trials and research activities until such time as appropriate financing was available.

We anticipate incurring additional losses over at least the next few years. To achieve profitability, we, alone or with others, must successfully develop and commercialize our technologies and proposed products, conduct pre-clinical studies and clinical trials, obtain required regulatory approvals and successfully manufacture and market such technologies and proposed products. The time required to reach profitability is highly uncertain, and we do not know whether we will be able to achieve profitability on a sustained basis, if at all.

Commitments

As outlined in Note 5 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, 2004:

	PAYMENTS DUE BY PERIOD				
	TOTAL	LESS THAN 1 YEAR	1 - 3 YEARS	4 - 5 YEARS	AFTER 5 YEARS
Facility operating leases	$10,719,000	$1,515,000	$2,651,000	$2,585,000	$3,968,000
Capital lease obligations	64,000	34,000	24,000	6,000	-
License agreements	1,300,000	500,000	400,000	400,000	-
Total contractual obligations	$12,083,000	$2,049,000	$3,075,000	$2,991,000	$3,968,000

Factors Affecting our Business Condition

In addition to the other information included in this annual report on Form 10-K, the following factors should be considered in evaluating our business and future prospects:

We expect to continue to incur substantial losses over the next few years and we may never become profitable.

We have never been profitable and we may never become profitable. As of June 30, 2004, we had a deficit accumulated during development stage of $117.1 million and a loss for the year then ended of $26.3 million. We anticipate substantial losses over the next few years associated with the manufacturing and marketing of NeutroSpec for diagnosis of appendicitis, and continued research and development of PT-141, MIDAS and NeutroSpec for other indications. 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, which would have a material adverse effect on our business.

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

To date, we have generated no revenues from the sale of any approved products. Unless and until we receive approval from the U.S. Federal Drug Administration and other regulatory authorities for our other product candidates, we cannot sell our other products and will not have product revenues from them. Therefore, for the foreseeable future, we will have to fund all of our operations and capital expenditures from net proceeds from the sale of NeutroSpec products and from cash, cash equivalents and investments 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, which would have a material adverse effect on our business.

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

We are an emerging company and have not yet demonstrated our ability to perform the functions necessary for the continued success of the commercialization of NeutroSpec or the successful commercialization of any of our other product candidates. The successful commercialization of our other 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;
- conducting sales and marketing activities; and
- obtain additional capital.

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.

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

NeutroSpec.

Our other product candidates are at various stages of research and development, will require regulatory approval, and may never be successfully developed or commercialized. We are still conducting clinical trials on the use of NeutroSpec for other indications. PT-141 and MIDAS products will require significant further research, development and testing. You should evaluate us in light of the uncertainties, delays, difficulties and expenses commonly experienced by early stage biopharmaceutical companies, which may include unanticipated problems and additional costs relating to:

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

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The regulatory approval process is lengthy, expensive and uncertain, and may prevent us from obtaining the approval we require.

Government authorities in the United States and other countries extensively regulate the advertising, labeling, storage, record-keeping, safety, efficacy, research, development, testing, manufacture, promotion, marketing and distribution of drug products. Drugs are subject to rigorous regulation by the FDA in the United States and similar regulatory bodies in other countries. The steps ordinarily required by the FDA before a new drug may be marketed in the United States:

- completion of pre-clinical laboratory tests, pre-clinical trial and formulation studies;
- submission to the FDA of an investigational new drug application, or IND, which must become effective before clinical trials may begin;
- performance of adequate and well-controlled human clinical trials to establish the safety and efficacy of the drug for each proposed indication;
- the submission of a new drug application, or NDA, to the FDA; and
- FDA review and approval of the NDA before any commercial marketing or sale.

The results of product development, pre-clinical studies and clinical studies are submitted to the FDA as part of a NDA. The NDA also must contain extensive manufacturing information. Once the submission has been accepted for filing, the FDA generally has 180 days to review the application and respond to the applicant. The review process is often significantly extended by FDA requests for additional information or clarification. The FDA may refer the NDA to an advisory committee for review, evaluation and recommendation as to whether the application should be approved, but the FDA is not bound by the recommendation of an advisory committee. The FDA may deny or delay approval of applications that do not meet applicable regulatory criteria or if the FDA determines that the clinical data do not adequately establish the safety and efficacy of the drug. Upon approval, a drug candidate may be marketed only in those dosage forms and for those indications approved in the NDA. Once approved, the FDA may withdraw the product approval if compliance with pre- and post-market regulatory standards is not maintained or if problems occur after the product reaches the marketplace. In addition, the FDA may require post-marketing studies, referred to as Phase 4 studies, to monitor the effect of approved products, and may limit further marketing of the product based on the results of these post-market studies. The FDA has broad post-market regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products, and withdraw approvals.

Satisfaction of FDA pre-market approval requirements for new drugs typically takes several years and the actual time required may vary substantially based upon the type, complexity and novelty of the product or disease.

Government regulation may delay or prevent marketing of potential products for a considerable period of time and impose costly procedures upon our activities. Success in early stage clinical trials does not assure success in later stage clinical trials. Data obtained from clinical activities is not always conclusive and may be susceptible to varying interpretations that could delay, limit or prevent regulatory approval. Even if a product receives regulatory approval, later discovery of previously unknown problems with a product may result in restrictions on the product or even complete withdrawal of the product from the market.

The FDA has required specific post-marketing studies for NeutroSpec, including additional clinical studies with pediatric patients and patients with specified conditions, and additional testing and development of assays. These post-marketing studies must be completed by various deadlines over the next two years.

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If regulatory approval of any of our products is granted, it will be limited to certain disease states or conditions. The manufacturers of approved products and their manufacturing facilities will be subject to continual review and periodic inspections by the FDA and other authorities where applicable, and must comply with ongoing regulatory requirements, including the FDA=s current Good Manufacturing Practices ("cGMP") regulations. Failure to comply with the statutory and regulatory requirements subjects the manufacturer to possible legal or regulatory action, such as Warning Letters, suspension of manufacturing, seizure of product, voluntary recall of a product, injunctive action or possible civil penalties. Adverse experiences with the product must be reported to the FDA and could result in the imposition of market restriction through labeling changes or in product removal. Product approvals may be withdrawn if compliance with regulatory requirements is not maintained or if problems concerning safety or efficacy of the product occur following approval. Because we intend to contract with third parties for manufacturing of these products, our ability to control third party compliance with FDA requirements will be limited to contractual remedies and rights of inspection. Failure of third-party manufacturers to comply with cGMP or other FDA requirements may result in legal or regulatory action by the FDA.

Outside the United States our ability to market our products will also depend on receiving marketing authorizations from the appropriate regulatory authorities. The foreign regulatory approval process includes all of the risks associated with FDA approval described above. The requirements governing the conduct of clinical trials and marketing authorization vary widely from country to country. At present, foreign marketing authorizations are applied for at a national level, although within the European Community, or EC, registration procedures are available to companies wishing to market a product to more than one EC member state. If the regulatory authority is satisfied that adequate evidence of safety, quality and efficiency has been presented, a marketing authorization will be granted.

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

Our rights to a key antibody used in NeutroSpec 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.

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We rely on third parties to conduct clinical trials for our product candidates and their failure to timely

perform their obligations could significantly harm our product development.

We rely on outside scientific collaborators such as researchers at clinical research organizations and universities in certain areas that are particularly relevant to our research and product development plans, such as the conduct of clinical trials. The competition for these relationships is intense, and we may not be able to maintain our relationships with them on acceptable terms. These outside collaborators generally may terminate their engagements with us at any time. As a result, we can control their activities only within certain limits, and they will devote only a certain amount of their time to conduct research on our product candidates and develop them. If they do not successfully carry out their duties under their agreements with us, fail to inform us if these trials fail to comply with clinical trial protocols or fail to meet expected deadlines, this may adversely affect our ability to develop our product candidates and obtain regulatory approval.

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 NeutroSpec and PT-141 depend on contract manufacturers over whom we have no control.

We do not have the facilities to manufacture NeutroSpec or PT-141. We depend on DSM N.V. of the Netherlands for the manufacture of the antibody used in NeutroSpec, on Ben Venue Laboratories of Cleveland, Ohio for the manufacture of NeutroSpec kits, and on UCB Bioproducts, SA in Belgium for the manufacture of PT-141. Our contract manufacturers must perform these 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 continued FDA approval of NeutroSpec or receive FDA approval of our other potential products. The failure of these manufacturers to supply these key components of NeutroSpec, 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.

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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.

We depend on our arrangement with Mallinckrodt to market, sell and distribute NeutroSpec. Tyco Healthcare is our worldwide (excluding Europe) marketing, distribution and sale partner for NeutroSpec. If Tyco Healthcare fails to market NeutroSpec or devote enough resources to NeutroSpec, our potential revenues from the sale of NeutroSpec 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. In addition, if the FDA approves PT-141 for marketing and sale, we will depend on our arrangements with potential partners for the potential marketing, distribution and sale of PT-141. If these potential partners fail to market PT-141 or devote enough resources to PT-141, our potential revenues from the sale of PT-141 will be adversely affected. If the arrangements with these potential partners fail, we may have difficulty establishing new marketing relationships, and in any event, we will have limited control over these activities.

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

Approval of NeutroSpec for marketing and sale does not assure the product's commercial success. NeutroSpec will compete with other diagnostic imaging modalities and drugs manufactured and marketed by major pharmaceutical and other biotechnology companies. Imaging agents such as NeutroSpec generally take longer to achieve market acceptance following marketing approval than other drugs. The degree of market acceptance of NeutroSpec will depend on a number of factors, including:

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

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

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

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

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

The biopharmaceutical and diagnostic industries are highly competitive. We are likely to encounter significant competition with respect to NeutroSpec, 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 we may. These competitive products or technologies may be more effective and useful and less costly than NeutroSpec, 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.

Our ability to achieve significant revenues from the sale of our future products will depend, in part, on the ability of healthcare providers to obtain adequate reimbursement from Medicare, Medicaid, private insurers and other health care payers.

The continuing efforts of government and insurance companies, health maintenance organizations and other payers of health care costs to contain or reduce costs of health care may adversely affect our future revenues and ability to achieve profitability. Our ability to successfully commercialize our future products will depend, in significant part, on the extent to which health care providers can obtain appropriate reimbursement levels for the cost of our products and related treatment. Third-party payers are increasingly challenging the prices charged for

diagnostic and therapeutic products and related services. Also, the trend towards managed health care in the U.S. and the concurrent growth of organizations such as HMOs, could control or significantly influence the purchase of health care services and products. In addition, legislative proposals to reform health care or reduce government insurance programs may result in lower prices or the actual inability of prospective customers to purchase our future products. The cost containment measures that health care payers and providers are instituting and the effect of any health care reform could materially and adversely affect our ability to operate profitably. Furthermore, even if reimbursement is available, it may not be available at price levels sufficient for us to realize a positive return on our investment

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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 be issued;
- whether or not others will obtain patents claiming aspects similar to those covered by our patents and patent applications;
- whether we will need to initiate litigation or administrative proceedings which may be costly whether we win or lose.

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.

If we are unable to keep our trade secrets confidential, our technologies and other proprietary information may be used by others to compete against us.

In addition to our reliance on patents, we attempt to protect our proprietary technologies and processes by relying on trade secret laws, nondisclosure and confidentiality agreements, and licensing arrangements with our employees and other persons who have access to our proprietary information. These agreements and arrangements may not provide meaningful protection for our proprietary technologies and processes in the event of unauthorized use or disclosure of such information. In addition, our competitors may independently develop substantially equivalent technologies and processes or otherwise gain access to our trade secrets or technology, either of which could materially and adversely affect our competitive position.

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Our collaboration agreements may fail or be terminated unexpectedly, which could result in significant delays and substantial increases in the cost of our research, development and the commercialization of our potential products.

We are party to various arrangements with academic, governmental and corporate partners. The successful development and commercialization of the potential products covered by these arrangements will depend upon the ability of these third parties to fully perform their contractual responsibilities. If any of these parties breaches or unexpectedly terminates their agreement with us, or otherwise fails to conduct their activities in a timely manner, the development or commercialization of our potential products may be delayed. For example, we have an agreement with Mallinckrodt under which they have agreed to sell NeutroSpec. If Mallinckrodt were to become unwilling or unable to provide these services, we would have to quickly make alternative arrangements with third parties, which could significantly delay and increase the expenses associated with the commercialization of NeutroSpec.

We intend to continue to enter into additional collaborations to develop and commercialize our potential products in the future. We may not be able to negotiate these arrangements on favorable terms, if at all, and these relationships may not be successful. In addition, our collaborative partners may pursue alternative technologies or develop alternative compounds designed to treat the same diseases that are the target of their collaborative programs with us.

We are subject to extensive regulation in connection with the laboratory practices and the hazardous materials we use.

We are subject to various laws and regulations regarding laboratory practices, the experimental use of animals and the use and disposal of hazardous or potentially hazardous substances in connection with our research. In each of these areas, as noted above, the FDA and other regulatory authorities have broad regulatory and enforcement powers, including the ability to levy fines and civil penalties, suspend or delay issuance of approvals, seize or recall products and withdraw approvals, any one or more of which could have a material adverse effect upon us. We are also subject to numerous federal, state and local laws relating to such matters as safe working conditions, manufacturing practices, environmental protection, fire hazard control and disposal of hazardous or potentially hazardous substances. We may incur significant costs to comply with such laws and regulations now or in the future.

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

Our research and development of NeutroSpec, 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 entails 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, or cease clinical trials. 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 8, 2004 was approximately 440,000 shares. 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 management and principal stockholders together control approximately 30% of our voting securities, a concentration of ownership which could delay or prevent a change in control.

As of June 30, 2004, our executive officers and directors beneficially own approximately 5% of our voting securities and our 5% or greater stockholders beneficially own approximately 25% 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.

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We will face increased costs as a result of changes to the regulations governing public companies, including the Sarbanes-Oxley Act of 2002.

Enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules proposed by the Securities and Exchange Commission and by the American Stock Exchange, could result in increased costs to us to evaluate the implications of any new rules and respond to their requirements. The new rules could make it more difficult or more costly for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers. We are presently evaluating and monitoring developments with respect to new and proposed rules and cannot predict or estimate the amount of the additional costs we may incur or the timing of such costs.

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, 2004, our cash and cash equivalents were $17.9 million and investments, which consisted of corporate debt securities and mutual funds, were $2.5 million. 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.

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Item 8. Financial Statements and Supplementary Data

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Consolidated Financial Statements

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

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have audited the accompanying consolidated balance sheets of Palatin Technologies, Inc. and subsidiary (a development stage enterprise) as of June 30, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit), and cash flows for each of the years in the three-year period ended June 30, 2004 and for the period from January 28, 1986 (inception) to June 30, 2004. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. The cumulative statements of operations, stockholders' equity (deficit), and cash flows for the period January 28, 1986 (inception) to June 30, 2004 include amounts for the period from January 28, 1986 (inception) to June 30, 2001 and for each of the years in the three-year period ending June 30, 2001, which were audited by other auditors who have ceased operations and whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the period January 28, 1986 (inception) through June 30, 2001 is based solely on the report of other auditors.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (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 disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Palatin Technologies, Inc. and subsidiary (a development stage enterprise) as of June 30, 2004 and 2003, and the results of their operations and their cash flows for each of the years in the three-year period ended June 30, 2004 and for the period January 28, 1986 (inception) to June 30, 2004, in conformity with U.S. generally accepted accounting principles.

/s/ KPMG LLP

Philadelphia, Pennsylvania
August 13, 2004

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, 2001 and 2000 and for the years ended June 30, 2001, 2000 and 1999, 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

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

	June 30, 2004	June 30, 2003
ASSETS		
Current assets:		
Cash and cash equivalents	$ 17,947,076	$ 14,294,603
Available for sale investments	2,465,350	4,088,384
Prepaid expenses and other	428,917	347,510
Total current assets	20,841,343	18,730,497

Property and equipment, net	2,934,739	3,399,181
Restricted cash	428,075	428,075
Other	174,930	163,381
Total assets	$ 24,379,087	$ 22,721,134
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current portion of capital lease obligations	$ 33,491	$ 188,015
Accounts payable	2,019,970	1,344,789
Accrued expenses	2,067,183	1,619,382
Accrued compensation	599,600	428,500
Deferred revenue	242,000	407,420
Total current liabilities	4,962,244	3,988,106
Capital lease obligations	30,203	76,432
Commitments and contingencies (Note 5)		
Stockholders' equity:		
Preferred stock of $.01 par value - authorized 10,000,000 shares;		
Series A Convertible; issued and outstanding 11,697 and 14,867 shares as of June 30, 2004 and 2003, respectively;	117	149
Common stock of $.01 par value - authorized 75,000,000 shares;		
Issued and outstanding 52,790,589 and 42,994,050 shares as of June 30, 2004 and 2003, respectively;	527,906	429,941
Additional paid-in capital	136,148,482	109,085,115
Deferred compensation	(78,407)	(37,977)
Accumulated other comprehensive income (loss)	(84,772)	(11,805)
Deficit accumulated during development stage	(117,126,686)	(90,808,827)
Total stockholders' equity	19,386,640	18,656,596
Total liabilities and stockholders' equity	$ 24,379,087	$ 22,721,134

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

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

	Inception (January 28, 1986) through June 30, 2004	Year Ended June 30, 2004	2003	2002
REVENUES:				
Grants and contracts	$ 12,415,249	$ 2,149,738	$ 641,417	$ 80,929
License fees and royalties	2,895,407	165,420	628,598	200,426
Other	318,917	-	-	-
Total revenues	15,629,573	2,315,158	1,270,015	281,355

OPERATING EXPENSES:				
Research and development	95,745,833	23,333,329	17,439,191	12,117,026
General and administrative	37,987,420	5,739,519	4,866,642	5,004,143
Net intangibles write down	259,334	-	-	-
Total operating expenses	133,992,587	29,072,848	22,305,833	17,121,169
OTHER INCOME (EXPENSE):				
Investment income, net of realized losses	2,922,776	221,644	247,552	312,015
Interest expense	(2,003,828)	(22,649)	(22,038)	(3,188)
Merger costs	(525,000)	-	-	-
Total other income, net	393,948	198,995	225,514	308,827
Loss before income taxes and cumulative effect of accounting change	(117,969,066)	(26,558,695)	(20,810,304)	(16,530,987)
Income tax benefit	1,203,491	240,836	245,093	392,410
Loss before cumulative effect of accounting change	(116,765,575)	(26,317,859)	(20,565,211)	(16,138,577)
Cumulative effect of accounting change (Note 2)	(361,111)	-	-	-
NET LOSS	(117,126,686)	(26,317,859)	(20,565,211)	(16,138,577)
DEEMED DIVIDEND	(3,511,765)	-	(203,138)	(297,603)
NET LOSS ATTRIBUTABLE TO COMMON STOCKHOLDERS	$(120,638,451)	$(26,317,859)	$(20,768,349)	$(16,436,180)
Basic and diluted net loss attributable to common stockholders per common share	$ (0.55)	$ (0.73)	$ (1.16)	
Weighted average number of common shares outstanding used in computing basic and diluted net loss attributable to common stockholders per common share	47,687,679	28,362,121	14,195,466	

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

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PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)

	Preferred Stock			
	Shares	Amount	Subscrip-tions	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 in $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.

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

	Preferred Stock			
	Shares	Amount	Subscrip-tions	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	-	-
Conversion of preferred shares into common shares	(711,325)	(7,113)	-	-
Net loss	-	-	-	-
Balance, June 30, 2003	14,867	149	-	-
Conversion of preferred shares into common shares	(3,170)	(32)	-	-
Net loss	-	-	-	-
Balance, June 30, 2004	11,697	$ 117	$ -	$ -

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

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

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

	Common Stock		Additional	Accumulated Deferred	Deficit Other Com-	Accumulated
	Shares	Amount				
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	-	-	-	-
Conversion of preferred shares into common shares	(711,325)	(7,113)	-	-	-	-
Net loss	-	-	-	-	-	-
Balance, June 30, 2003	14,867	149	-	-	-	-
Conversion of preferred shares into common shares	(3,170)	(32)	-	-	-	-
Net loss	-	-	-	-	-	-
Balance, June 30, 2004	11,697	$ 117	$ -	$ -	$ -	$ -

	Common Stock		Additional Paid-In	Earned But	Treasury	Accumulated Deferred Compensa-	Other Com- prehensive	Deficit Accumulated During Develop-	
	Shares	Amount	Capital	Not Issued	Stock	tion	Income (Loss)	ment Stage	Total
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 in $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)	-	-	-

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PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)

(continued)

	Common Stock		Additional Paid-In	Earned But	Treasury	Accumulated Deferred Compensa-	Other Com- prehensive	Deficit Accumulated During Develop-	
	Shares	Amount	Capital	Not Issued	Stock	tion	Income (Loss)	ment Stage	Total
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)	-	-	-	-	-	-
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)	-	-	-

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Earned But Not Issued	Treasury Stock	Accumulated Deferred Compensation	Other Comprehensive Income (Loss)	Deficit Accumulated During Development Stage	Total
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 deferred 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

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

	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Earned But Not Issued	Treasury Stock	Accumulated Deferred Compensation	Other Comprehensive Income (Loss)	Deficit Accumulated During Development Stage	Total
Issuance of common shares upon exercise of options	487,016	4,870	634,883	-	-	-	-	-	639,753
Stock based compensation	-	-	246,109	-	-	(105,534)	-	-	140,575
Acceleration of options previously granted	-	-	335,315	-	-	-	-	-	335,315
Amortization of deferred 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 deferred 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
Issuance of common shares, net of expenses	24,352,099	243,521	30,127,905	-	-	-	-	-	30,371,426
Issuance of common shares upon conversion of preferred shares	1,121,576	11,216	(4,103)	-	-	-	-	-	-
Issuance of common shares upon exercise of options and warrants	97,299	973	127,445	-	-	-	-	-	128,418
Stock based compensation	-	-	41,628	-	-	(13,153)	-	-	28,475

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PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Stockholders' Equity (Deficit)

(continued)

	Common Stock		Additional Paid-In	Deferred Earned But	Treasury	Accumulated Deficit Other Compensation	Comprehensive	Accumulated During Develop-	
	Shares	Amount	Capital	Not Issued	Stock		Income (Loss)	ment Stage	Total
Amortization of deferred compensation	-	-	-	-	-	29,118	-	-	29,118
Unrealized loss on investments	-	-	-	-	-	-	(22,409)	-	(22,409)
Net loss	-	-	-	-	-	-	(20,565,211)	(20,565,211)	
Balance, June 30, 2003	42,994,050	429,941	109,085,115			(37,977)	(11,805)	(90,808,827)	18,656,596
Issuance of common shares, net of expenses	6,992,500	69,925	20,889,594	-	-	-	-	-	20,959,519
Issuance of common shares upon conversion of preferred shares	120,465	1,205	(1,173)	-	-	-	-	-	-
Issuance of common shares upon exercise of options and warrants	2,683,574	26,835	5,385,934	-	-	-	-	-	5,412,769
Stock based compensation	-	-	789,012	-	-	(86,157)	-	-	702,855
Amortization of deferred compensation	-	-	-	-	-	45,727	-	-	45,727
Unrealized loss on investments	-	-	-	-	-	-	(72,967)	-	(72,967)
Net loss	-	-	-	-	-	-	(26,317,859)	(26, 317,859)	
Balance, June 30, 2004	52,790,589	$ 527,906	$136,148,482	$ -	$ -	$ (78,407)	$(84,772)	$(117,126,686)	$ 19,386,640

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

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PALATIN TECHNOLOGIES, INC.

(A Development Stage Enterprise)

Consolidated Statements of Cash Flows

	Inception (January 28, 1986) through June 30, 2004	Year Ended June 30, 2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net loss	$(117,126,686)	$(26,317,859)	$(20,565,211)	$(16,138,577)
Adjustments to reconcile net loss to net cash used in operating activities:				

Cumulative effect of accounting change	361,111	-	-	-
Depreciation and amortization	3,781,977	671,989	579,258	1,156,874
Realized loss on investments	129,355	129,355	-	-
License fee	500,000	-	-	-
Interest expense and accrued interest on note payable and financings	876,665	-	-	-
Intangibles and equipment write down	278,318	-	-	-
Common stock and notes payable issued for expenses	751,038	-	-	-
Settlement with consultant	(28,731)	-	-	-
Acceleration of options previously granted	1,505,315	-	-	-
Stock based compensation	4,863,366	748,582	57,593	117,759
Changes in certain operating assets and liabilities:				
Prepaid expenses and other	(1,346,173)	(102,962)	(91,858)	34,079
Accounts payable	2,019,970	675,181	(234,547)	449,676
Accrued expenses and other	2,205,616	618,901	749,799	293,678
Deferred revenue	(119,111)	(165,420)	(386,598)	599,574
Net cash used in operating activities	(101,347,970)	(23,742,233)	(19,891,564)	(13,486,937)
CASH FLOWS FROM INVESTING ACTIVITIES:				
Sale/maturities of investments	3,539,313	1,420,712	9,464	-
Purchase of investments	(6,261,061)	-	(2,979,917)	(1,172,007)
Purchases of property and equipment	(6,139,291)	(197,541)	(1,134,015)	(1,634,509)
Net cash (used in) provided by investing activities	(8,861,039)	1,223,171	(4,104,468)	(2,806,516)
activities				
CASH FLOWS FROM FINANCING ACTIVITIES:				
Proceeds from notes payable and other long-term debt	6,103,327	-	-	-
Payments on notes payable and other long-term debt	(4,103,327)	-	-	-
Payments on capital lease obligations	(354,226)	(200,753)	(153,473)	-
Proceeds from common stock, stock option and warrant issuances, net	102,301,652	26,372,288	30,499,844	12,781,293
Proceeds from preferred stock, net	24,210,326	-	-	-
Purchase of treasury stock	(1,667)	-	-	-
Net cash provided by financing activities	128,156,085	26,171,535	30,346,371	12,781,293
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	17,947,076	3,652,473	6,350,339	(3,512,160)
CASH AND CASH EQUIVALENTS, beginning of period	-	14,294,603	7,944,264	11,456,424
CASH AND CASH EQUIVALENTS, end of period	$ 17,947,076	$ 17,947,076	$ 14,294,603	$ 7,944,264

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

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PALATIN TECHNOLOGIES, INC.
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
(continued)

	Inception (January 28, 1986) through June 30, 2004	Year Ended June 30, 2004	2003	2002
SUPPLEMENTAL CASH FLOW INFORMATION:				
Cash paid for interest	$ 680,569	$ 22,649	$ 22,038	$ 3,188
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	$ 960,909	$ -	$ 20,000	$ 14,144
Common stock issued for accrued salaries and bonuses	$ 16,548	$ -	$ -	$ -
Accrued interest paid in common stock	$ 679,097	$ -	$ -	$ -

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

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

(1) ORGANIZATION ACTIVITIES:

Nature of Business – Palatin Technologies, Inc. (“Palatin” or the “Company”) is a development-stage biopharmaceutical company. The Company is primarily focused on discovering and developing melanocortin (MC)-based therapeutics, which the Company believes is one of the fastest growing areas of pharmaceutical research and development. The MC family of receptors has been identified with a variety of conditions and diseases, including sexual dysfunction, obesity, cachexia (extreme wasting, generally secondary to a chronic disease) and inflammation. The Company’s objective is to become a worldwide leader in MC-based therapeutics by pursuing a strategy based on commercializing the Company’s products under development and identifying new product targets through the utilization of the Company’s patented drug discovery platform.

In July 2004, the Company announced the receipt of full approval from the U.S. Food and Drug Administration (“FDA”) to market NeutroSpec™, the Company’s proprietary radiolabeled monoclonal antibody product, for imaging equivocal appendicitis in patients (see Note 11). The Company is currently conducting additional clinical trials with NeutroSpec to expand its market potential as an imaging agent for other indications such as osteomyelitis (infection deep inside a bone), fever of unknown origin, post surgical abscess, inflammatory bowel disease and pulmonary imaging.

PT-141, the Company’s lead therapeutic drug candidate, is a patented, nasally administered peptide that is in clinical development for the treatment of both male and female sexual dysfunction. The Company completed various Phase 1 safety studies and Phase 2A efficacy studies in male subjects and patients. The Company completed a Phase 2B at-home dose-ranging study with PT-141 in male patients. The Company also completed a Phase 1 safety study in female subjects. In addition, the Company has several preclinical drug candidates under investigation based on the MC family of receptors for various therapeutic indications including sexual dysfunction, obesity, cachexia and inflammation.

In August 2004, the Company entered into a collaborative agreement with King Pharmaceuticals, Inc. (“King”), for the purpose of developing and commercializing PT-141 (see Note 11).

Key elements of the Company’s business strategy include: entering into alliances and partnerships with pharmaceutical companies to facilitate the development, manufacture, marketing, sale and distribution of the Company’s product candidates under investigation, expansion of the Company’s pipeline through the utilization of its MC expertise and patented drug discovery platform, opportunistic acquisition of synergistic products and technologies and partial funding of the Company’s development and discovery programs with the cash flow from our NeutroSpec and PT-141 collaboration agreements.

Business Risk and Liquidity – As shown in the accompanying financial statements, the Company incurred a net loss of $26,317,859, for the year ended June 30, 2004 and has a deficit accumulated in the development stage of $117,126,686, cash and cash equivalents of $17,947,076 and investments of $2,465,350 as of June 30, 2004. The Company anticipates incurring additional losses in the future as it continues development of NeutroSpec for diagnosis of appendicitis and expands clinical trials for other indications of NeutroSpec and continues research and development of PT-141 and its MIDAS™ (Metal Ion-induced Distinctive Array of Structures) technology. To achieve profitability, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, 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, and 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 from King in August 2004, will be adequate to fund the Company's projected operations through its fiscal year ending June 30, 2005, based on current and projected expenditure levels. Management plans to continue to refine its operations, control expenses, evaluate alternative methods to conduct its business, and seek available and attractive sources of financing and sharing of development costs through strategic collaboration agreements or other resources. Should appropriate sources of financing not be available, management would delay certain clinical trials and research activities until such time as appropriate financing was available. There can be no assurance that the Company's financing efforts will be successful. If adequate funds are not available, the Company's financial condition and results of operations will be materially and adversely affected.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

Statements of Cash Flows – Cash and cash equivalents include cash on hand, cash in banks and all highly liquid investments with a purchased maturity of less than three months. As of June 30, 2004 and 2003, $428,075 of cash was restricted to secure letters of credit for security deposits on leases.

Investments – The Company accounts for its investments in accordance with Statement of Financial Accounting Standards No. 115 "Accounting For Certain Investments in Debt and Equity Securities." The Company classifies such investments as available for sale investments and as such all investments are recorded at fair value. The investments consist principally of corporate debt securities and mutual funds. Unrealized holding gains and losses, net of the related tax effect, if any, are excluded from earnings and are reported in other comprehensive income (loss) and as a separate component of stockholders' equity until realized. Interest on securities classified as available for sale is included in interest income. Realized gains and losses are recorded in the statement of operations in the period that the transaction occurs.

The following is a summary of available for sale investments as of June 30, 2004:

	Gross	Gross

	Cost	Unrealized Gains	Unrealized Losses	Fair Value
Corporate debt securities	$ 50,000	$ 521	$ -	$ 50,521
Mutual funds	$ 2,500,122	$ -	$ (85,293)	$ 2,414,829
Total	$ 2,550,122	$ 521	$ (85,293)	$ 2,465,350

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

	Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	$ 100,000	$ 2,243	-	$ 102,243
Mutual funds	$ 4,000,189	$	$ (14,048)	$ 3,986,141
Total	$ 4,100,189	$	$ (14,048)	$ 4,088,384

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 five years for lab equipment, seven years for office furniture and equipment and over the term of the lease for leasehold improvements. Maintenance and repairs are expensed as incurred while expenditures that extend the useful life of an asset are capitalized.

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Impairment of Long-Lived Assets – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of its long-lived assets, management evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. If impairment is indicated, the long-lived asset would be written down to 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. Revenue from corporate collaborations and licensing agreements consists of up-front fees, research and development funding, and milestone payments. Non-refundable up-front fees are deferred and amortized to revenue over the related performance period. The Company estimates the performance period as the initial research term. The actual performance period may vary. The Company adjusts the performance period estimate based upon available facts and circumstances. Periodic payments for research and development activities and government grants are recognized over the period that the Company performs the related activities under the terms of the agreements. Revenue resulting from the achievement of milestone events stipulated in the agreements is recognized when the milestone is achieved. Milestones are based on the occurrence of a substantive element specified in the contract or as a measure of substantive progress towards completion under the contract.

The Company recognized $149,738, $137,417 and $80,929, respectively, in grant revenue pursuant to the Small Business Technology Transfer (“STTR”) programs of the Department of Health and Human Services for the years ended June 30, 2004, 2003 and 2002.

The Company recognized $2,000,000 and $504,000, respectively, in contract revenue related to the attainment of certain milestones and other shared development costs of NeutroSpec pursuant to our collaboration agreement, as amended, with Mallinckrodt, Inc., a division of Tyco International, Ltd. ("Mallinckrodt"), described below for the years ended June 30, 2004 and 2003. The Company did not recognize any contract revenue related to the shared development costs of NeutroSpec for the year ended June 30, 2002.

In August 1999, the Company entered into a strategic collaboration agreement with Mallinckrodt to jointly develop and market one of its proposed products (see Note 8). Under the terms of the agreement, the Company granted a worldwide license, excluding Europe, for sales, marketing and distribution and received a non-refundable licensing fee of $500,000. The licensing fee was recognized as revenue in the period that such non-refundable fees were received.

In fiscal 2001, the Company adopted Securities and Exchange Commission Staff Accounting Bulletin No. 101 "Revenue Recognition in Financial Statements" ("SAB 101") which requires up front, non-refundable license fees to be deferred and recognized over the performance period. The cumulative effect of adopting SAB 101 resulted in a one-time, non-cash charge of $361,111 or $0.04 per share, which reflects the deferral of the $500,000 up-front license fee received from Mallinckrodt in August 1999. Under SAB 101, this payment was recorded as deferred revenue to be recognized as license revenue over the remaining development term of this agreement. For the years ended June 30, 2004, 2003 and 2002, the Company recognized $11,569, $43,987 and $138,888, respectively, in license revenue that was included in the cumulative effect adjustment as of July 1, 2000.

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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 $3,200,000, subject to certain conditions and attainment of certain milestones, to cover half of the Company's estimated expenses associated with completing the FDA review process of NeutroSpec. Pursuant to this amendment, $800,000 was received upon execution of this agreement. Under SAB 101, this payment was recorded as deferred revenue to be recognized as license revenue over the remaining development term of this agreement. For the years ended June 30, 2004, 2003 and 2002, the Company recognized $153,851, $584,611 and $61,538, respectively, in license revenue under this agreement.

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

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

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

	For the year ended June 30,		
	2004	2003	2002

Net loss attributable to common stockholders:			
As reported	$(26,317,859)	$(20,768,349)	$(16,436,180)
Stock-based employee compensation expense included in the determination of net loss as reported	626,639	-	-
Impact of total stock-based compensation expense determined under fair-value-based method	(1,801,218)	(1,297,069)	(1,660,290)
Pro forma	$(27,492,438)	$(22,065,418)	$(18,096,470)

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Basic and diluted net loss attributable to common stockholders per common share:			
As reported	$ (0.55)	$ (0.73)	$ (1.16)
Pro forma	$ (0.58)	$ (0.78)	$ (1.27)

The assumptions used in the Black-Scholes option-pricing model are as follows: dividend yield of 0%, weighted average risk-free interest rate of 3.72% in 2004, 3.54% in 2003, and 4.5% in 2002, expected volatility of 90.5% in 2004, 101% in 2003 and 60% in 2002, and an expected option life of seven years.

The Company accounts for options granted to consultants in accordance with EITF 96-18, “Accounting for Equity Instruments with Variable Terms That Are Issued for Consideration Other Than Employee Services.” The Company determines the value of consultant’s stock options utilizing the Black-Scholes option pricing model.

Income Taxes – The Company and its subsidiary file consolidated federal and combined state income tax returns. The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, “Accounting for Income Taxes” (“SFAS 109”). 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 carryforwards.

Net Loss per Common Share – The Company applies Statement of Financial Accounting Standards No. 128, “Earnings per Share” (“SFAS 128”), which 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) attributable to common stockholders by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution from the exercise or conversion of securities into common stock, such as stock options and warrants. For the years ended June 30, 2004, 2003 and 2002, there were no dilutive effects of stock options or warrants as the Company incurred a net loss in each period. Options and warrants to purchase 12,392,034 shares of common stock at prices ranging from $0.01 to $21.70 per share were outstanding at June 30, 2004 (see Note 6).

Fair Value of Financial Instruments – The Company’s financial instruments consist primarily of cash and cash

equivalents, marketable securities and accounts payable. Management believes that the carrying value of these assets and liabilities are representative of their respective fair values.

Other Comprehensive Loss — Other comprehensive loss consists of the following:

	For the year ended June 30,		
	2004	2003	2002
Net loss	$(26,317,859)	$(20,565,211)	$(16,138,577)
Unrealized gain (loss) on investments	(72,967)	(22,409)	10,604
Comprehensive loss	$(26,390,826)	$(20,587,620)	$(16,127,973)

Reclassifications — Certain prior year balances have been reclassified to conform to the current year presentation.

(3) PROPERTY AND EQUIPMENT:

Property and equipment consists of the following:

	June 30,	
	2004	2003
Office equipment	$ 1,120,467	$ 1,063,610
Laboratory equipment	2,292,039	2,153,787
Leasehold improvements	3,089,365	3,086,932
	6,501,871	6,304,329
Less: Accumulated depreciation and amortization	(3,567,132)	(2,905,148)
	$ 2,934,739	$ 3,399,181

For the years ended June 30, 2004, 2003 and 2002, depreciation expense was $663,208, $569,253 and $1,146,566, respectively.

(4) ACCRUED EXPENSES:

Accrued expenses consist of the following:

	June 30,	
	2004	2003
Product development costs	$ 1,079,000	$ 784,007
Accrued rent	464,095	397,872

Other	524,088	437,503

$ 2,067,183	$ 1,619,382

(5) COMMITMENTS AND CONTINGENCIES

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

Fiscal Year Ending June 30,	
2005	$ 1,515,000
2006	1,047,000
2007	1,604,000
2008	1,284,000
2009	1,301,000
2010 and thereafter	3,968,000
	$ 10,719,000

As of June 30, 2004, the Company has accrued approximately $33,000 related to the Company's share of estimated costs until termination of the Princeton lease, which is currently being subleased. For the years ended June 30, 2004, 2003 and 2002, rent expense was $1,332,442, $1,554,838 and $656,850, respectively.

Capital Leases — In September 2002, the Company acquired $417,920 of laboratory equipment under capital leases. The term of these leases range from 24 to 60 months. As of June 30, 2004, $63,694 remains outstanding pursuant to these lease obligations. The capitalized cost and accumulated depreciation for the equipment under capital leases is $417,920 and $146,272, respectively, as of June 30, 2004.

Employment Agreements – Effective October 1, 2003, Dr. Spana, Mr. Wills and Shubh D. Sharma, Ph.D. have each entered into an employment agreement with the Company for a two-year period. The agreements do not contain automatic renewal provisions. Dr. Spana is serving as chief executive officer and president at a salary of $320,000 per year. Mr. Wills is serving as chief financial officer at a salary of $265,000 per year. Dr. Sharma is serving as a vice president and chief technical officer at a salary of $185,000 per year. Each agreement also provides for:

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- annual bonus compensation, in an amount to be decided by the compensation committee and approved by the board, based on achievement of yearly objectives; and
- participation in all benefit programs that the Company establish, to the extent the employee's position, tenure, salary, age, health and other qualifications make him eligible to participate.

Each agreement allows the Company or the employee to terminate the agreement upon written notice, and contains other provisions for termination by the Company for "cause", or by the employee for "good reason" or due to a "change in control" (as these terms are defined in the employment agreements). Early termination may, in some circumstances, result in severance pay at the salary then in effect, for a period of 24 months (Spana), 18 months (Wills) or nine months (Sharma) plus continuation of medical and dental benefits then in effect for 18

months. Termination following a change in control will result in a lump sum payment of two times (Spana) or one and one-half times (Wills) the salary then in effect, continuation of medical and dental benefits then in effect for 18 months, and immediate vesting of all stock options. Each agreement includes non-competition, non-solicitation and confidentiality covenants.

License Agreements – The Company has three license agreements that require minimum annual payments. Future minimum payments under the license agreements for the years ending June 30 are: 2005 — $500,000, 2006 — $200,000, 2007 — $200,000, 2008 — $200,000 and 2009 — $200,000.

(6) STOCKHOLDERS' EQUITY:

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 $11,635,000, 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 $2.63, so each share of Series A Convertible Preferred Stock is currently convertible into approximately 38 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 Series A 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. During the fiscal year ended June 30, 2004, 3,170 shares of the Series A Convertible Preferred Stock was converted into 120,465 shares of common stock. As of June 30, 2004, 11,697 shares of Series A Convertible Preferred Stock, currently convertible into 444,752 shares of common stock, are outstanding.

Series C Preferred Offering – As of August 16, 1999, pursuant to the strategic collaboration agreement with Mallinckrodt (see Note 2), the Company sold 700,000 restricted shares of Series C Convertible Preferred Stock for $13,000,000. During June 2003, the Series C Convertible Preferred Stock was converted into 700,000 shares of common stock.

Common Stock Transactions – In January 2004, the Company concluded a private placement of common stock and warrants in which the Company sold 6,992,500 shares of its $.01 par value common stock and 1,048,875 warrants, which equates to 15% warrant coverage on the number of shares sold, at an offering price of $3.25 per share. Each five-year warrant entitles the holder to purchase one share of common stock at an exercise price of $4.06 per share. The gross proceeds were approximately $22,700,000 and the net proceeds were approximately $21,000,000. The Company made the private placement solely to financial institutions and accredited investors pursuant to Regulation D under the Securities Act of 1933. The investors represented that they were purchasing the securities for their own accounts for investment and not with a view toward resale or distribution to others. The certificates representing the shares of common stock and warrants bear restrictive legends. A registration statement covering the resale of the shares by the investors was filed and subsequently declared effective by the Security and Exchange Commission in April 2004. In connection with the private placement, the Company paid placement fees totaling approximately $1,700,000.

In private placements of common stock and warrants in July 2002, November 2002 and March 2003, the Company sold an aggregate of 24,352,099 shares of its common stock to investors consisting of domestic and European financial institutions and other accredited investors: 1,545,063 shares were sold at a market value of approximately $1.17 per share in the July offering, 9,373,940 shares of common stock were sold at a market value of approximately $1.23 per share in the November offering, and 13,433,096 shares of common stock were

sold at a market value of approximately $1.42 per share in the March offering. For every five shares purchased in the July and the November offerings, and for every four shares purchased in the March offering, the investors received a five-year warrant to purchase one share of common stock at an exercise price of $1.46 for the July offering, $1.54 for the November offering, and $1.77 for the March 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 $203,138 has been reflected in the Company's consolidated statement of operations for year the ended June 30, 2003.

In connection with these private placements, the Company paid cash placement agent fees of $126,000 for the July offering, $790,433 for the November offering and $985,250 for the March offering and issued five-year warrants to purchase (i) 103,004 shares of common stock at prices ranging from $1.37 to $1.46 per share pursuant to the July offering, and (ii) 458,647 shares of common stock at $1.54 per share pursuant to the November offering.

In private placements of common stock and warrants in November 2001 and June 2002, the Company sold an 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 offering and 1,095,097 shares were sold at $2.20 per share in the June 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 the year ended June 30, 2002.

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In connection with these private placements, the Company paid placement agent'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 $14,000,000. 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 placement agent's fee of $1,060,391 and issued five-year warrants to the placement agent 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.

Outstanding Stock Purchase Warrants – As of June 30, 2004, the Company had the following warrants outstanding (prices are rounded to the nearest cent).

Common Stock Shares	Exercise Price per Share	Latest Termination Date
15,125	$ 0.01	03/15/05
32,487	0.22	09/13/05
38,627	1.37	07/29/07
154,506	1.46	06/13/07
1,450,473	1.54	11/29/07
2,464,789	1.77	03/21/08
32,654	1.78	02/15/06
404,263	2.36	06/25/06

134,188	2.66	10/29/06
1,057,864	2.70	04/30/07
292,215	2.75	06/13/07
15,000	2.82	05/13/12
30,000	2.90	04/06/06
25,000	3.65	12/17/06

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	Common Stock Shares	Exercise Price per Share	Latest Termination Date
	15,000	$ 4.00	12/15/10
	1,048,875	4.06	01/28/09
	87,884	6.53	10/27/05
	216,000	6.60	10/05/05
	5,000	7.00	06/06/05
	146,475	7.42	10/27/05
	360,000	7.50	10/05/05
Total	8,026,425	$0.01 - 7.50	

In December 2002, the Company issued warrants to purchase 15,000 shares of its common stock at $2.82 per share to the Wistar Institute of Anatomy and Biology, as part of the consideration for a second agreement with Wistar to amend a technology license which Wistar previously granted to the Company. The warrants expire on May 13, 2012. The fair value of these warrants of approximately $20,000, as calculated by the Black-Scholes option pricing model, has been charged to expense in the statement of operations.

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. The warrants expire on April 30, 2007. 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. These options have been exercised in full as of June 30, 2004.

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 five years from the date of issuance. 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 ten years.

Stock Option Plan – The Company has one stock option plan currently in effect under which future grants may be issued, the 1996 Stock Option Plan, as amended. This plan was approved by the Company's stockholders on November 15, 2000, for which 5,000,000 shares of common stock have been reserved. The Company has also granted options under agreements with individuals, and not under any plan. The options granted by the Company generally expire ten years from the date of grant and generally vest over three to four years. As of June 30, 2004, there were 355,956 options available for grant under the 1996 Stock Option Plan.

The status of the plan and individual agreements during the three years ended June 30, 2004 was as follows:

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	Number of shares subject to options	Range of prices per share	Weighted average Prices per share

Outstanding at July 1, 2001	3,385,175	$.22 - $360.00	$4.14
Granted	695,000	$2.86 - $6.063	
Expired	(384,330)	$3.50 - $6.00	
Forfeitures	(27,500)	$3.50 - $6.00	
Exercised	(149,275)	$.22 - $3.875	
Outstanding at June 30, 2002	3,519,070	$.22 - $21.70	$4.30
Granted	799,900	$1.16 - $3.53	
Expired	(114,216)	$2.50 - $21.70	
Forfeitures	(63,333)	$1.36 - $5.125	
Exercised	(5,184)	$.22 - $2.50	
Outstanding at June 30, 2003	4,136,237	$1.00 - $21.70	$3.79
Granted	957,500	$1.16 - $4.70	
Expired	(290,021)	$1.36 - $21.70	
Forfeitures	(297,683)	$1.36 - $4.25	
Exercised	(140,432)	$1.36 - $3.063	
Outstanding at June 30, 2004	4,365,601	$1.00 - $21.70	$3.58
Exercisable at June 30, 2004	3,353,207	$1.00 - $21.70	$3.76

Range of Exercise Prices	Shares Purchasable Under Options	Weighted Average Option Life (Years)	Weighted Average Exercise Price	Shares Exercisable As of June 30, 2004	Weighted Average Price of Exercisable Shares
$1.00 - $2.49	732,663	7.84	$1.62	485,384	$1.64
$2.50 - $3.99	2,215,278	7.14	$3.21	1,561,232	$3.18
$4.00 - $5.99	1,136,071	5.62	$4.72	1,025,002	$4.76
$6.00 - $8.00	281,387	3.11	$6.96	281,387	$6.96
$8.01 - $21.70	202	0.92	$15.77	202	$15.77

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Range of Exercise Prices	Shares Purchasable Under Options	Weighted Average Option Life (Years)	Weighted Average Exercise Price	Shares Exercisable As of June 30, 2004	Weighted Average Price of Exercisable Shares
	all outstanding options:				
$1.00 - $21.70	4,365,601	6.93	$3.58	3,353,207	$3.76

During the year ended June 30, 2004, the Company made modifications to stock options held by an employee and a director. As a result of these modifications, the Company recorded an expense of $156,239 during the year ended June 30, 2004. In addition, there were stock options granted to certain officers which included vesting provisions which were contingent on achievement of certain performance objectives and one these objectives was met in September 2003. As a result, a compensation expense charge in the amount of $470,400 was recorded in connection with these performance based options.

(7) INCOME TAXES:

The Company has had no income tax expense or benefit since inception because of operating losses except for amounts recognized for sales of New Jersey State operating loss carry-forwards and research and development credits. 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, as well as for operating loss carryforwards and research and development costs, 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, 2004 and has been recorded since inception.

As of June 30, 2004, the Company had Federal net operating loss carryforwards of approximately $112,000,000, which will expire in the years 2004 through 2024, if not utilized. At June 30, 2004 the Company had federal research and development credits of approximately $2,400,000 that will expire in year 2004 through 2024 if not utilized.

The Tax Reform Act of 1986 (the "Act") provides for limitation on the use of net operating loss and research and development tax credit carryforwards following certain ownership changes (as defined by the Act) that could limit the Company's ability to utilize these carryforwards. The Company may have experienced various ownership changes, as defined by the Act, as a result of past financings. Accordingly, the Company's ability to utilize the aforementioned carryforwards may be limited. Additionally, U.S. tax laws limit the time during which these carryforwards may be applied against future taxes; therefore the Company may not be able to take full advantage of these carryforwards for federal income tax purposes.

The Company's net deferred tax assets are as follows:

	June 30,	
	2004	2003
Net operating loss carryforwards	$ 38,097,000	$ 29,149,000
Research and development tax credits	2,386,000	1,736,000
Accrued expenses	798,000	455,000
	41,281,000	31,340,000
Valuation allowances	(41,281,000)	(31,340,000)
Net deferred tax assets	$ -	$ -

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In assessing the realizability of deferred tax assets, the Company considers whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which the temporary differences representing future deductible amounts become deductible. Due to the Company's history of losses, the deferred tax assets are fully offset by a valuation allowance as of June 30, 2004 and 2003. The valuation allowance for the years ended June 30, 2004 and 2003 increased by $9,941,000 and $5,069,000, respectively, related primarily to additional net operating losses incurred by the Company.

During the years ended June 30, 2004, 2003 and 2002, the Company sold New Jersey State operating loss carryforwards and research and development credits, which resulted in the recognition of $240,836, $245,093 and $392,410, respectively, in tax benefits.

(8) 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 $4,025,000 of the Company’s revenues has been derived from federally or state funded grants and

contracts. Under federal grants and contracts, there are no 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 to amend the strategic collaboration agreement dated as of August 17, 1999 for the development of NeutroSpec. 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 6). The Company shared NeutroSpec development expenses prior to FDA approval equally with Mallinckrodt. Mallinckrodt agreed to pay the Company milestone payments of an additional $10,000,000 on FDA approval of the first NeutroSpec indication and on attainment of certain sales goals following product launch. The Company agreed to arrange for the manufacture of NeutroSpec and would receive a transfer price on each product unit and a royalty on NeutroSpec net sales.

Under the terms of the amended agreement, Mallinckrodt committed up to an additional $3,200,000 subject to certain conditions and attaining certain milestones, to offset a portion of the Company's estimated expenses associated with completing the FDA review process. Additionally, timing of the $10,000,000 in future milestone payments has been revised to coincide with NeutroSpec's FDA approval and achievement of future sales goals (see Note 2). All of the $3,200,000 has been paid as of June 30, 2004.

During the years ended June 30, 2004, 2003 and 2002, the Company recognized $2,000,000, $504,000 and $0, respectively, as contract revenue related to the development of NeutroSpec.

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(9) RELATED PARTY TRANSACTIONS:

One of the Company's directors is the president and sole stockholder of a company which provides strategic and technology consulting services. The Company paid the consulting firm $43,125, $112,500 and $119,333 during the years ended June 30, 2004, 2003 and 2002, respectively, for consulting services provided to the Company.

(10) CONSOLIDATED QUARTERLY FINANCIAL DATA – UNAUDITED:

The following tables provide quarterly data for the fiscal years ended June 30, 2004 and 2003:

	Three Months Ended			
	September 30, 2003	December 31, 2003	March 31, 2004	June 30, 2004
	(amounts in thousands except share and per share data)			
Total revenues	$ 1,833	$ 291	$ 181	$ $ 10
Total operating expenses	8,633	5,203	8,292	6,945
Total other income (expense)	81	80	84	(46)
Loss before income taxes	(6,719)	(4,832)	(8,027)	(6,981)

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	Three Months Ended			
	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003

	(amounts in thousands except share and per share data)			
Income tax benefit	-	241	-	-
Net loss attributable to common stockholders	$ (6,719)	$ (4,591)	$ (8,027)	$ (6,981)
Basic and diluted net loss attributable to common stockholders per common share	$ (0.16)	$ (0.10)	$ (0.16)	$ (0.13)
Weighted average number of common shares outstanding, used in computing basic and diluted net loss attributable to common stockholders per common share	43,161,281	44,531,302	50,455,484	52,687,077

	Three Months Ended			
	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003
	(amounts in thousands except share and per share data)			
Total revenues	$ 624	$ 234	$ 330	$ 82
Total operating expenses	4,768	4,875	6,025	6,638
Total other income (expense)	45	44	43	94
Loss before income taxes	(4,099)	(4,597)	(5,652)	(6,462)
Income tax benefit	-	245	-	-
Net loss	(4,099)	(4,352)	(5,652)	(6,462)
Deemed dividend	(17)	(98)	(88)	-
Net loss attributable to common stockholders	$ (4,116)	$ (4,450)	$ (5,740)	$ (6,462)
Basic and diluted net loss attributable to common stockholders per common share	$ (0.22)	$ (0.17)	$ (0.19)	$ (0.15)

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	Three Months Ended			
	September 30, 2002	December 31, 2002	March 31, 2003	June 30, 2003
	(amounts in thousands except share and per share data)			
Weighted average number of common shares outstanding, used in computing basic and diluted net loss attributable to common stockholders per common share	18,497,853	24,871,723	30,162,510	42,039,097

(11) SUBSEQUENT EVENTS:

In July 2004, the Company announced the receipt of full approval from the FDA to market NeutroSpec, the Company's proprietary radiolabeled monoclonal antibody product for imaging equivocal appendicitis. NeutroSpec is marketed and distributed by our strategic collaboration partner, Mallinckrodt.

In August 2004, the Company entered into a collaboration agreement with King, a specialty pharmaceutical company, to jointly develop and commercialize PT-141. Pursuant to the terms of the agreement, Palatin has granted King a co-exclusive license with Palatin to PT-141 in North America and an exclusive right to collaborate in the licensing or sublicensing of PT-141 with Palatin outside North America. Palatin has the option to create a urology specialty sales force to co-promote the product in the U.S., upon commercialization.

King paid the Company $20,000,000 at closing, $5,000,000 of which was designated as an equity investment in Palatin. Certain of he proceeds received at closing will be recorded as an equity contribution based on the fair value of the common stock and common warrants issued in connection with the collaboration agreement with the remaining balance recorded as deferred revenue. The deferred revenue will be amortized to revenue over the related performance period. King may pay potential milestone payments to Palatin totaling up to $100,000,000 for achieving certain Erectile Dysfunction and Female Sexual Dysfunction development and regulatory approval targets, a portion of which would consist of an equity investment in Palatin. After regulatory approval and commercialization of PT-141, King may also pay potential one-time milestone payments to Palatin totaling up to $130,000,000 upon achieving specified annual North American net sales thresholds.

Under the terms of the agreement, King and Palatin will share all collaboration development and marketing costs and all collaboration net profits derived from net sales of PT-141 in North America based on an agreed percentage. King and Palatin will seek a partner for PT-141 for territories outside of North America and will jointly share in collaboration revenues generated from those territories.

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

None.

Item 9A. Controls and Procedures

The Company's management, with the participation of the Company's Chief Executive Officer and Chief financial Officer, has evaluated the effectiveness of the Company's disclosure controls and procedures as of June 30, 2004. Based on that evaluation, the Company's Chief Executive Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures were effective as of June 30, 2004. There were no changes that materially affected, or that are reasonably likely to materially affect the Company's internal control over financial reporting during the fourth quarter of the fiscal year ended June, 30, 2004.

Item 9B. Other Information

None.

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
- Item 14 – Principal Accountant Fees and Services

is incorporated by reference from our definitive proxy statement relating to the 2004 Annual Meeting of Stockholders, which we will file with the SEC within 120 days after our June 30, 2004 fiscal year end.

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PART IV

Item 15. 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:

— Report of Registered Independent Public Accounting Firm

— 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 annual report on 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 quarterly report on Form 10-QSB for the quarter ended December 31, 1997, filed with the SEC on February 13, 1998.
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 year ended June 30, 1996, filed with the SEC on September 27, 1996.
10.02	1996 Stock Option Plan, as amended effective January 1, 2001. Incorporated by reference to Exhibit 4.1 of our registration statement on Form S-8, Commission File No. 333-83876, filed with the SEC on March 6, 2002.

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. †

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10.05 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 year ended June 30, 1996, filed with the SEC on September 27, 1996.

10.06 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 year ended June 30, 1999, filed with the SEC on December 28, 1999.

10.07 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 quarter 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.

10.08 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 annual report on Form 10-K for the year ended June 30, 2000, filed with the SEC on September 29, 2000.

10.09 Form of warrant issued to purchasers in the September-October 2000 private placement. Incorporated by reference to Exhibit 10.3 of our quarterly report on Form 10-Q for the quarter ended September 30, 2000, filed with the SEC on November 14, 2000.

10.10 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 year ended June 30, 2001, filed with the SEC on September 28, 2001. †

10.11 Employment Agreement dated as of October 1, 2003, between Palatin Technologies, Inc. and Carl Spana. Incorporated by reference to Exhibit 10.1 of our quarterly report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 14, 2003. †

10.12 Employment Agreement dated as of October 1, 2003, between Palatin Technologies, Inc. and Stephen T. Wills. Incorporated by reference to Exhibit 10.2 of our quarterly report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 14, 2003. †

10.13 Employment Agreement dated as of October 1, 2003, between Palatin Technologies, Inc. and Shubh D. Sharma. Incorporated by reference to Exhibit 10.3 of our quarterly report on Form 10-Q for the quarter ended September 30, 2003, filed with the SEC on November 14, 2003. †

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10.14 Form of stock purchase agreement for our October 2001 private placement. Incorporated by reference to Exhibit 10.1 of our quarterly report on Form 10-Q for the quarter ended September 30, 2001, filed with the SEC on November 14, 2001.

10.15 Form of registration rights agreement for our October 2001 private placement. Incorporated by reference to Exhibit 10.2 of our quarterly report on Form 10-Q for the quarter ended September 30, 2000, filed with the SEC on November 14, 2000.

10.16 Form of warrant issued to purchasers in our October 2001 private placement. Incorporated by reference to Exhibit 10.3 of our quarterly report on Form 10-Q for the quarter ended September 30, 2000, filed with the SEC on November 14, 2000.

10.17 Form of stock purchase agreement for our June-July 2002 private placement. Incorporated by reference to Exhibit 10.27 of our annual report on Form 10-K for the year ended June 30, 2002, filed with the SEC on September 30, 2002.

10.18 Form of registration rights agreement for our June-July 2002 private placement. Incorporated by reference to Exhibit 10.28 of our annual report on Form 10-K for the year ended June 30, 2002, filed with the SEC on September 30, 2002.

10.19 Form of warrant issued to purchasers in our June-July 2002 private placement. Incorporated by reference to Exhibit 10.29 of our annual report on Form 10-K for the year ended June 30, 2002, filed with the SEC on September 30, 2002.

10.20 Form of stock purchase agreement for our November 2002 private placement. Incorporated by reference to Exhibit 10.30 of our annual report on Form 10-K for the year ended June 30, 2003, filed with the SEC on September 29, 2003.

10.21 Form of registration rights agreement for our November 2002 private placement. Incorporated by reference to Exhibit 10.31 of our annual report on Form 10-K for the year ended June 30, 2003, filed with the SEC on September 29, 2003.

10.22 Form of warrant issued to purchasers in our November 2002 private placement. Incorporated by reference to Exhibit 10.32 of our annual report on Form 10-K for the year ended June 30, 2003, filed with the SEC on September 29, 2003.

10.23 Form of stock purchase agreement for our March 2003 private placement. Incorporated by reference to Exhibit 10.33 of our annual report on Form 10-K for the year ended June 30, 2003, filed with the SEC on September 29, 2003.

10.24 Form of warrant issued to purchasers in our March 2003 private placement. Incorporated by reference to Exhibit 10.34 of our annual report on Form 10-K for the year ended June 30, 2003, filed with the SEC on September 29, 2003.

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10.25 Form of stock purchase agreement, including warrant certificate, for our January 2004 private placement. Incorporated by reference to Exhibit 10.01 of our quarterly report on Form 10-Q for the quarter ended December 31, 2003, filed with the SEC on February 17, 2004.

10.26 Development and Manufacturing Agreement between Palatin and DSM Biologics Company B.V. Incorporated by reference to Exhibit 10.30 of our annual report on Form 10-K for the year ended June 30, 2003, filed with the SEC on September 29, 2003. We have requested confidential treatment of certain provisions contained in this exhibit. The copy filed as an exhibit omits the information subject to the confidentiality request.

10.27 Securities Purchase Agreement between Palatin and King Pharmaceuticals, Inc. We have requested confidential treatment of certain provisions contained in this exhibit. The copy filed as an exhibit omits the information subject to the confidentiality request. *

10.28 Collaborative Development and Marketing Agreement between Palatin and King Pharmaceuticals, Inc. We have requested confidential treatment of certain provisions contained in this exhibit. The copy filed as an exhibit omits the information subject to the confidentiality request. *

10.29 Form of warrant certificate issued to King Pharmaceuticals, Inc. *

21 Subsidiaries of the registrant. *

23 Consent of KPMG LLP. *

31.1 Certification of Chief Executive Officer *

31.2 Certification of Chief Financial Officer *

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

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

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* Exhibit filed with this report.

† Management contract

(b) Reports on Form 8-K:

- On November 6, 2003, we filed a current report on Form 8-K reporting an Item 5 event regarding the presentation of positive safety and efficacy data from our Phase 2B “at home” study of PT-141 for male sexual dysfunction.

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- On August 13, 2004, we filed a Form 8-K including the press release in which we announced an agreement between Palatin and King Pharmaceuticals, Inc. to jointly develop and, on obtaining necessary regulatory approvals, commercialize Palatin’s PT-141 for the treatment of male and female sexual dysfunction.

- On August 18, 2004, we filed a Form 8-K including the press release in which we announced that we conducted the initial closing and received proceeds of $20 million from King Pharmaceuticals, Inc. pursuant to the collaborative agreement between Palatin and King, which we announced on August 13, 2004.

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 13, 2004

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 13, 2004
/s/ Stephen T. Wills Stephen T. Wills	Executive Vice President and Chief Financial Officer (principal financial and accounting officer)	September 13, 2004
/s/ John K.A. Prendergast John K.A. Prendergast	Chairman and Director	September 13, 2004
/s/ Perry B. Molinoff Perry B. Molinoff	Director	September 13, 2004
/s/ Robert K. deVeer, Jr. Robert K. deVeer, Jr.	Director	September 13, 2004

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/s/ Zola P. Horovitz Zola P. Horovitz	Director	September 13, 2004
/s/ Robert I. Taber Robert I. Taber	Director	September 13, 2004
/s/ Errol DeSouza Errol DeSouza	Director	September 13, 2004

SECURITIES PURCHASE AGREEMENT

This Securities Purchase Agreement (this "Agreement") is made effective as of August 18, 2004 (the "Effective Date") by and between Palatin Technologies, Inc. a Delaware corporation, with its principal place of business at Cedar Brook Corporate Center, 4C Cedar Brook Drive, Cranbury, New Jersey 08512 (the "Company"), and King Pharmaceuticals, Inc., a Tennessee corporation with a place of business at 501 Fifth Street, Bristol, Tennessee 37620 (the "Purchaser"). The Company and the Purchaser are sometimes hereafter referred to individually as a "Party" and together as the "Parties." Capitalized terms not defined in this Agreement shall have the meaning given to them in the Collaborative Development and Marketing Agreement by and between the Company and the Purchaser, dated August 12, 2004 (the "Collaboration Agreement").

WHEREAS, the Company and the Purchaser have previously entered into the Collaboration Agreement for the purpose of developing and marketing Products derived from Palatin Technology, Palatin Patent Rights, and Proprietary Materials; and

WHEREAS, the Company desires to issue and sell to the Purchaser, from time to time, and the Purchaser desires to acquire, from time to time, on the terms and subject to the conditions set forth in this Agreement, shares of the Company's common stock, par value $0.01 per share (the "Common Stock"), and warrants to purchase shares of Common Stock for an aggregate purchase price of up to **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** (the "Purchase Price") in a private placement basis pursuant to an exemption from registration under Section 4(2) of the Securities Act of 1933, as amended (the "Securities Act")**,** as provided in this Agreement and the Collaboration Agreement.

NOW, THEREFORE, in consideration of the premises and the mutual covenants contained in this Agreement, the Parties hereto agree as follows:

ARTICLE 1 PURCHASE AND SALE OF THE COMMON STOCK AND WARRANT

1.1 Initial Closing. Subject to the terms and conditions set forth in this Agreement, and in reliance on the representations and warranties set forth in this Agreement, the Company hereby issues and sells to the Purchaser, and the Purchaser hereby purchases from the Company on the date hereof (i) One Million, One Hundred and Seventy Six Thousand, One Hundred and Twenty Five (1,176,125) shares of Common Stock (the "Initial Common Stock") and (ii) a three (3) year warrant to purchase Two Hundred Thirty Five Thousand, Two Hundred and Twenty Five (235,225) shares of the Company's Common Stock at an exercise price of $4.25 per share, for an aggregate purchase price of $5 million. The warrant shall be in the form attached to the Collaboration Agreement as Exhibit I, (the "Warrant"). The closing of the purchase and sale of the Initial Common Stock and Warrant (the "Initial Closing") shall take place at the offices of Mintz Levin Cohn Ferris Glovsky and Popeo PC, 666 Third Ave., New York, NY 10017 at 10:00 a.m. on the date hereof, or at such time and date thereafter as the Purchaser and the Company may agree (the "Initial Closing Date"). At the Initial Closing, the Company will execute, issue, and deliver to the Purchaser (i) a certificate in the name of the Purchaser for the number of shares of Initial Common Stock being purchased against delivery by such Purchaser to the Company of the applicable portion of the Purchase Price by wire transfer or other method acceptable to the Company and (ii) the Warrant.

1.2 Subsequent Closings. In accordance with Section 6.3 of the Collaboration Agreement, and subject to Article 7 hereof, upon achievement of the development milestones as determined and identified in Section 6.3 of the Collaboration Agreement, additional closings (each a "Subsequent Closing") of the issuance of Common Stock ("Additional Common Stock") and the issuance of an additional Warrant (the "Additional Warrant") shall take place at the offices of Mintz Levin Cohn Ferris Glovsky and Popeo PC, 666 Third Ave., New York, NY 10017 on the date that is within ten (10) days after the determination of the first achievement of each such development milestone, or at such time and date thereafter as the Purchaser and the Company may agree (each a "Subsequent Closing

Date"), but in no event later than the date milestone payments are made pursuant to Section 6.3.1 of the Collaboration Agreement. At each Subsequent Closing, the Company will execute, issue and deliver to the Purchaser a certificate in the name of the Purchaser for the number of shares of Additional Common Stock being purchased against delivery by such Purchaser to the Company of the applicable portion of the purchase price by wire transfer or other method acceptable to the Company. In addition, at the Subsequent Closing that occurs in connection with the milestone identified in Section 1.2(a) below, the Company will execute, issue and deliver to the Purchaser the Additional Warrant. Subject to the terms and conditions set forth in this Agreement, and in reliance on the representations and warranties as shall be made on each Subsequent Closing Date, the Company agrees to issue to the Purchaser at the applicable Subsequent Closing, such number of shares of Additional Common Stock, and the Company further agrees to issue to the Purchaser the Additional Warrant upon completion of the milestone identified in (a) below, in each case as shall be determined as follows:

(a) upon **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** for ED Product, as determined in accordance with Section 6.3.4 of the Collaboration Agreement, by dividing **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** (the aggregate Purchase Price to be paid by the Purchaser for the number of shares to be issued pursuant to this Section 1.2(a)) by the product of (i) one and one-fourth (1.25) and (ii) the average closing price of the Company's common stock as listed on the American Stock Exchange ("AMEX") (or, if not listed on AMEX, such other principal national securities exchange or market system on which the shares are listed)) for the twenty (20) trading day period (the "20 Day Average") immediately preceding the date of achievement of such development milestone;

(b) upon **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** for ED Product, as determined in accordance with Section 6.3.4 of the Collaboration Agreement, by dividing **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** (the aggregate Purchase Price to be paid by the Purchaser for the number of shares to be issued pursuant to this Section 1.2(b)) by the product of (i) one and one-fourth (1.25) and (ii) the 20 Day Average for the period immediately preceding the date of achievement of such development milestone;

(c) upon **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** for FSD Product, as determined in accordance with Section 6.3.4 of the Collaboration Agreement, by dividing **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** (the aggregate Purchase Price to be paid by the Purchaser for the number of shares to be issued pursuant to this Section 1.2(c)) by the product of (i) one and one-fourth (1.25) and (ii) the 20 Day Average for the period immediately preceding the date of achievement of such development milestone;

(d) upon **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** for ED Product, as determined in accordance with Section 6.3.4 of the Collaboration Agreement, by dividing **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** (the aggregate Purchase Price to be paid by the Purchaser for the number of shares to be issued pursuant to this Section 1.2(d)) by the product of (i) one and one-fourth (1.25) and (ii) the 20 Day Average for the period immediately preceding the date of achievement of such development milestone; and

(e) upon **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** for FSD Product, as determined in accordance with Section 6.3.4 of the Collaboration Agreement, by dividing **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** (the aggregate purchase price to be paid by the Purchaser for the number of shares to be issued pursuant to this Section 1.2(d)) by the product of (i) one and one-fourth (1.25) and (ii) the 20 Day Average for the period immediately preceding the date of achievement of such development milestone;

provided; however that, if the purchase of Additional Common Stock pursuant to any or all of the foregoing clauses would result in the Purchaser becoming the "beneficial owner" (as defined in Rule 13d-3 of the Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder (the "Exchange Act"))

of 5% or greater of the total shares of Common Stock outstanding on such Subsequent Closing Date, then the Purchaser shall have the right to, at its sole option, make a nonrefundable, noncreditable cash milestone payment to the Company pursuant to Section 6.3.1 of the Collaboration Agreement in lieu of purchasing Additional Common Stock.

Notwithstanding the foregoing, on any Subsequent Closing Date, the Purchaser may, at its sole option, elect to make a nonrefundable, noncreditable cash milestone payment to the Company pursuant to Section 6.3.1 of the Collaboration Agreement in lieu of purchasing Additional Common Stock and, in the case of Section 1.2(a), the Additional Warrant. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

If at any time following the Initial Closing or any Subsequent Closing the Company takes any actions that would result in the Common Stock beneficially owned by the Purchaser representing 5% or greater of the then outstanding Common Stock of the Company, the Company shall be obligated, at the written request of the Purchaser, to purchase an amount of Common Stock from the Purchaser, within 5 business days of the Purchaser's written request, in an aggregate amount such that following such purchase by the Company, the Purchaser will be the beneficial owner of less than 5% of the then outstanding Common Stock. The price to be paid by the Company for such purchase shall be the 20 Day Average for the period immediately preceding such purchase. The purchase price shall be paid by wire transfer or other method acceptable to the Purchaser and the Purchaser shall deliver to the Company the certificate(s) representing the shares of Common Stock purchased by the Company.

In the event fractional shares result from the calculations identified in this Section 1.2, such fractional share shall be rounded down to the nearest whole number of shares.

The shares of Common Stock underlying each of the Warrant and the Additional Warrant shall be referred to herein as the "Warrant Shares" and the form of Warrant attached to the Collaboration Agreement as Exhibit I shall be the form for each of the Warrant and the Additional Warrant with the date of issuance, the number of shares, the exercise price and the expiration date, being the only differences between the two warrants, unless otherwise agreed to in writing by the Company and the Purchaser.

ARTICLE 2 THE COMPANY'S REPRESENTATIONS AND WARRANTIES

In order to induce the Purchaser to enter into this Agreement and to consummate the transactions contemplated hereby, and except as set forth on the Company Disclosure schedule attached hereto as Exhibit A, if any, the Company represents and warrants to the Purchaser as follows:

2.1 Incorporation, Standing and Qualification of the Company. The Company is a corporation duly incorporated, validly existing and in good standing under the laws of the State of Delaware. The Company has the requisite power and authority to own, lease and operate its properties and assets and to carry on its business as now being conducted and to the extent described in the Company's SEC Filings (as defined below). The Company is duly qualified or licensed to do business as a foreign corporation and is in good standing in each jurisdiction in which the failure to be so qualified would have a material adverse effect on the assets, properties, condition, financial or otherwise, or in the results of operations or prospects of the Company or its subsidiaries considered as a whole (a "Material Adverse Effect").

2.2 Corporate Power and Authority. The Company has the requisite power and authority to execute and deliver this Agreement and to perform its obligations hereunder, including the authorization, issuance and delivery of the Warrant and the Initial Common Stock at the Initial Closing, the Additional Common Stock, and the Additional Warrant, as applicable, at each of the Subsequent Closings, if any, and the Warrant Shares upon the valid exercise of the Warrant and the Additional Warrant, as applicable, and to engage in the transactions contemplated hereby. The Company has taken all requisite corporate action to make all the provisions of this Agreement the valid and enforceable obligations they purport to be. No consent of any stockholder of the Company is required for the valid execution, issuance and delivery by the Company of the Agreement, the Initial Common Stock, the

Warrant, the Additional Warrant, the Warrant Shares or, to the Company's knowledge, the Additional Common Stock. Upon the execution and delivery hereof and thereof, this Agreement and the Warrant will be the legal, valid and binding obligations of the Company, enforceable against the Company in accordance with their respective terms, subject to laws of general application from time to time in effect affecting creditors' rights and the exercise of judicial discretion in accordance with general equitable principles.

2.3 Capitalization. The authorized capital stock of the Company consists of 75,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock, par value $0.01 per share, of which 264,000 shares have been designated Series A Convertible Preferred Stock ("Series A Preferred Stock"). The Company has adopted its 1996 Stock Option Plan (the "Plan") under which 5,000,000 shares of Common Stock are reserved for issuance. As of August 10, 2004, there were (i) 52,804,381 shares of Common Stock issued and outstanding, (ii) 11,697 shares of Series A Preferred Stock issued and outstanding, which are convertible into 444,752 shares of Common Stock, (iii) 308 shares of Common Stock reserved for issuance to previous holders of Series A Preferred Stock due to a retroactive conversion price adjustment, (iv) 4,392,775 shares of Common Stock reserved for issuance on exercise of outstanding options, and (v) 8,019,300 shares of Common Stock reserved for issuance on exercise of outstanding warrants. The Company has delivered to its stockholders a proxy statement in connection with a special meeting in order to increase the authorized common stock from 75,000,000 to 150,000,000 shares and to increase the number of shares available for issuance under the Plan from 5,000,000 to 10,000,000. If the stockholders approve both the proposed increase in authorized common stock and the proposed increase in shares available for issuance under the Plan, then options to purchase 906,200 shares under the Plan, granted subject to stockholder approval of the increases, will become effective and outstanding. Except as described above, there are no subscriptions, options, warrants or other rights (contingent or otherwise) to purchase or otherwise acquire shares of capital stock or other securities of the Company authorized, issued or outstanding, nor is the Company obligated in any other manner to issue shares of its capital stock, subscriptions, warrants, options, convertible securities, or other such rights or to distribute to holders of any of its equity securities any evidence of indebtedness or asset. No holder of any security of the Company is entitled to preemptive, first refusal or similar statutory, contractual or other rights, either arising pursuant to any agreement or instrument to which the Company is a party, or which are otherwise binding upon the Company, or to the Company's knowledge, to which any other person is a party.

2.4 No Violation. Neither the Company nor any of its subsidiaries is in violation of any term or provision of their respective charter or by-laws or of any franchise, license, permit, judgment, decree, order, statute, rule or regulation, where the consequences of such violation would result in a Material Adverse Effect.

2.5 No Default. Neither the execution, delivery and performance of this Agreement or the Collaboration Agreement by the Company nor the consummation of any of the transactions contemplated hereby or thereby (including, without limitation, the issuance and sale by the Company of the shares of Initial Common Stock and Additional Common Stock and the issuance of the Warrant, the Additional Warrant and the Warrant Shares) will give rise to a right to terminate or accelerate the due date of any payment due under, accelerate the share issuance under, or conflict with or result in the breach of any term or provision of, or constitute a default (or an event which with notice or lapse of time or both would constitute a default) under, or require any consent or waiver under, or result in the execution or imposition of any lien, charge or encumbrance upon any properties or assets of the Company or its subsidiaries pursuant to the terms of, any indenture, mortgage, deed of trust or other agreement or instrument to which the Company or any of its subsidiaries is a party or by which either the Company or its subsidiaries or any of their properties or businesses is bound, or any franchise, license, permit, judgment, decree, order, statute, rule or regulation applicable to the Company or any of its subsidiaries in each case, that would result in a Material Adverse Effect or that would violate any provision of the charter or by-laws of the Company or any of its subsidiaries.

2.6 Valid Issuance; Securities Laws. The Initial Common Stock and the Warrant, upon the Initial Closing and the

2.6 Valid Issuance; Securities Laws. The Initial Common Stock and the Warrant, upon the Initial Closing and the Additional Warrant and Additional Common Stock, if any, when issued upon each of the Subsequent Closings sold and delivered in accordance with the terms hereof for the consideration set forth herein, will be duly and validly authorized and issued, fully paid and non-assessable and, assuming the representations and warranties of the Purchaser contained in Article 3 of this Agreement are and will be true and correct, will be issued in compliance with all applicable federal and state securities laws in connection with the offer, issuance and sale of the securities at the Initial Closing and each Subsequent Closing. Assuming the proper and valid exercise of the Warrant and Additional Warrant, if any, in accordance with their terms, the Warrant Shares, will be validly issued, fully paid and non-assessable. The Initial Common Stock, the Additional Common Stock and the Warrant Shares will be free of transfer restrictions other than the restrictions set forth in Article 5 hereof and the transfer restrictions imposed by any federal or state securities laws.

2.7 Governmental Consents. All consents, approvals, orders, authorizations or registrations, qualifications, designations, declarations or filings with any federal, state or local governmental authority on the part of the Company required in connection with the consummation of the issuance of the securities contemplated herein shall have been obtained prior to and be effective as of the Initial Closing and each Subsequent Closing, including any securities or blue sky filings in connection with the purchase and sale of the securities at the Initial Closing and each of the Subsequent Closings, if any.

2.8 SEC Filings. The Company has timely filed with the Securities and Exchange Commission (the "SEC") all reports, registration statements and other documents required to be filed by it since July 1, 2003 (the "SEC Filings") under the Securities Act and the Exchange Act. The SEC Filings were prepared in accordance and, as of the date on which each such SEC Filing was filed with the SEC, complied in all material respects with the applicable requirements of the Securities Act or the Exchange Act, as the case may be. None of such SEC Filings, including, without limitation, any financial statements, exhibits or schedules included therein or documents incorporated therein by reference, at the time filed, declared effective or mailed, as the case may be, contained an untrue statement of a material fact or omitted to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading. Except to the extent information contained in any of the SEC Filings has been revised, corrected, superseded or updated by a later filing of any such form, report or document, none of the SEC Filings currently contains an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

2.9 Litigation. Except and to the extent disclosed in the Company's SEC Filings, there is no action, litigation or proceeding pending or, to the Company's knowledge, threatened against or involving the Company in any court or before or by any agency or regulatory body which could result in a judgment or liability against the Company or which would result in a Material Adverse Effect.

2.10 Brokers and Finders. No person or entity will have, as a result of the transactions contemplated by this Agreement or the Collaboration Agreement, any right, interest or valid claims against or upon the Company or the Purchaser for any commission, fee or other compensation as a finder or broker because of any act or omission by the Company or its agents.

2.11 Independent Accountants. KPMG LLP, whose reports are included as a part of the SEC Filings, are and, during the periods covered by their reports, were independent public accountants as required by the Securities Act, and the rules and regulations of the SEC thereunder.

2.12 AMEX Compliance; Listing. The Company is in compliance with the requirements of the AMEX for continued listing of the Common Stock thereon and has not received any notification that, and has no knowledge that, the AMEX is contemplating terminating such listing nor, to the Company's knowledge, is there any basis therefor. The transactions contemplated by this Agreement do not and will not contravene the rules and regulations of the AMEX.

2.13 Solicitation; Other Issuances of Securities. Neither the Company nor any of its subsidiaries or affiliates,

nor any Person acting on its or their behalf, (i) has engaged in any form of general solicitation or general advertising (within the meaning of Regulation D under the Securities Act) in connection with the offer or sale of the Common Stock, the Warrant or the Warrant Shares, (ii) has, directly or indirectly, made any offers or sales of any security or solicited any offers to buy any security, under any circumstances that would require registration of the Common Stock or the Warrants, under the Securities Act or (iii) has issued any shares of Common Stock or shares of any series of preferred stock or other securities or instruments convertible into, exchangeable for or otherwise entitling the holder thereof to acquire shares of Common Stock which would be integrated with the sale of the Initial Common Stock, Additional Common Stock, the Warrant, the Additional Warrant or the Warrant Shares to such Purchaser for purposes of the Securities Act or of any applicable stockholder approval provisions, including, without limitation, under the rules and regulations of any exchange or automated quotation system on which any of the securities of the Company are listed or designated, nor will the Company or any of its subsidiaries or affiliates take any action or steps that would require registration of any of the Initial Common Stock, Additional Common Stock, the Warrant, the Additional Warrant or the Warrant Shares under the Securities Act or cause the offering of the Initial Common Stock, Additional Common Stock, the Warrant, the Additional Warrant or the Warrant Shares to be integrated with other offerings. Assuming the accuracy of the representations and warranties of Purchasers, the offer and sale of the Initial Common Stock, the Additional Common Stock, the Warrant, the Additional Warrant or the Warrant Shares by the Company to the Purchaser pursuant to this Agreement will be exempt from the registration requirements of the Securities Act.

2.14 Investment Company. The Company is not and, after giving effect to the offering and sale of the Common Stock, the Warrant, the Additional Warrant or the Warrant Shares as contemplated by this Agreement, will not be an “investment company” within the meaning of the Investment Company Act of 1940, as amended.

ARTICLE 3 THE PURCHASER’S REPRESENTATIONS AND WARRANTIES

The Purchaser represents and warrants to the Company as follows:

3.1 Investment Representations. The Purchaser’s present intention is to acquire the Initial_Common Stock and the Warrant at the Initial Closing and the Additional Common Stock at each Subsequent Closing, if any, and the Warrant Shares upon exercise of the Warrant, for its own account and for the purpose of investment, and not with a view to distribution or resale thereof. The Purchaser acknowledges that it possesses such knowledge, sophistication and experience in financial and business matters as to be able to evaluate the merit and risks of an investment in such securities and that it can bear the economic risk of its investment.

3.2 Legends on Stock Certificates. The Purchaser further represents that it understands and agrees that all certificates evidencing the Warrant, the Additional Warrant, the Warrant Shares and any of the Common Stock issued at the Initial Closing and the Subsequent Closings, if any, shall bear a legend, prominently stamped or printed thereon, reading substantially as follows:

> “THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “ACT”), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO DISTRIBUTION OR RESALE AND SUCH SECURITIES MAY NOT BE SOLD, OFFERED FOR SALE, DELIVERED AFTER SALE, TRANSFERRED, PLEDGED, HYPOTHECATED, OR OTHERWISE TRANSFERRED IN THE ABSENCE OF A REGISTRATION STATEMENT COVERING THE SALE OF SUCH SECURITIES OR UNLESS SUCH SALE, PLEDGE, HYPOTHECATION OR TRANSFER IS OTHERWISE EXEMPT FROM REGISTRATION UNDER THE ACT AND ANY APPLICABLE STATE SECURITIES LAWS, UNLESS THE HOLDER SHALL HAVE OBTAINED A WRITTEN OPINION OF COUNSEL, REASONABLY SATISFACTORY TO THE COMPANY, TO THE EFFECT THAT REGISTRATION IS NOT REQUIRED IN CONNECTION WITH SUCH SALE OR OTHER TRANSFER.”

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER SET FORTH IN THE SECURITIES PURCHASE AGREEMENT, DATED AUGUST 18, 2004 BETWEEN THE COMPANY AND THE REGISTERED OWNER OF SUCH SECURITIES (OR SUCH OWNER'S PREDECESSOR IN INTEREST). THE COMPANY WILL FURNISH A COPY OF SUCH AGREEMENT WITHOUT CHARGE UPON WRITTEN REQUEST OF THE HOLDER OF THIS CERTIFICATE."

3.3 Access to Information. The Purchaser acknowledges that it has had (i) the opportunity to ask questions as it has deemed necessary of, and to receive answers from, representatives of the Company concerning the terms and conditions of the sale and issuance of the securities contemplated herein, (ii) access to information about the Company and its financial condition, results of operations, business, properties, management and prospects sufficient to enable it to evaluate its investment, and (iii) the opportunity to obtain such additional information which the Company possesses or can acquire without unreasonable effort or expense that is necessary to make an informed investment decision with respect to such investment. The foregoing, however, does not limit or modify the representation and warranties of the Company in Section 2 of the Agreement or the right of the Purchaser to rely thereon.

3.4 Accredited Investor Status. The Purchaser is an "accredited investor" as that term is defined in Rule 501 of Regulation D promulgated under the Securities Act.

3.5 Transfer Restrictions Imposed By Securities Laws. The Purchaser understands that none of the Warrant, the Additional Warrant, the Warrant Shares, the shares of Common Stock issued at the Initial Closing or each Subsequent Closing, if any, have been registered under the Securities Act or any other applicable securities laws, and, therefore, cannot be resold unless they are subsequently registered under the Securities Act and other applicable securities laws or unless an exemption from such registration is available. The Purchaser agrees not to resell or otherwise dispose of all or any part of such Common Stock, except as permitted by law, including, without limitation, any regulations under the Securities Act and other applicable securities laws; except as otherwise required herein, the Company does not have any present intention and is under no obligation to register the securities issued at the Initial Closing and each Subsequent Closing, if any under the Securities Act and other applicable securities laws. Accordingly, Purchaser acknowledges it may be required to hold such securities and bear the economic risk of its investment for an indefinite period of time.

3.6 Brokers and Finders. No person or entity will have, as a result of the transactions contemplated by this Agreement or the Collaboration Agreement, any right, interest or valid claims against or upon the Company or the Purchaser for any commission, fee or other compensation as a finder or broker because of any act or omission by the Purchaser or its agents.

ARTICLE 4 CLOSING CONDITIONS

4.1 Conditions to the Purchaser's Obligations at the Initial Closing and the Subsequent Closings. The Purchaser's obligation to purchase and pay for the securities to be purchased by it at the Initial Closing and each Subsequent Closing, if any, is subject to the satisfaction by the Company, on or before the date hereof, in the case of the Initial Closing, or on or before the relevant Subsequent Closing Date, in the case of a Subsequent Closing, of the following conditions:

(a) Representations and Warranties. The Company's representations and warranties contained in Article 2 shall be true and correct in all material respects on and as of the date hereof and on the relevant Subsequent Closing Date with the same effect as made on and as of such date.

(b) Performance of Obligations. The Company shall have performed and complied with all agreements, obligations and conditions contained in this Agreement in all material respects that are required to be performed or complied with by it on or before the Initial Closing Date or the relevant Subsequent Closing Date, as the case may be.

(c) Officer's Certificate. The Purchaser shall have received a certificate signed by the President and Chief Executive Officer of the Company attesting as to satisfaction of the conditions in Section 4.1(a) and (b) hereof.

(d) Secretary's Certificate. The Company shall have delivered to the Purchaser a certificate of the secretary of the Company dated as of the Initial Closing Date, certifying that (A) attached thereto is a true and complete copy of the by-laws of the Company as in effect on the date of such certification; (B) that attached thereto is a true and complete copy of all resolutions adopted by the Board of Directors of the Company authorizing the execution, delivery and performance of this Agreement, the issuance, sale and delivery of the Common Stock, the Warrant, the Additional Warrant and the Warrant Shares and that all resolutions are in full force and effect and are all the resolutions adopted in connection with the transactions contemplated hereby; (C) that attached thereto is a true and complete copy of the Company's Certificate of Incorporation as in effect on the date of such certification; and (D) to the incumbency and specimen signature of certain officers of the Company.

(e) Good Standing Certificate. The Company shall have delivered to the Purchaser a good standing certificate with respect to the Company from the Secretary of State of the State of Delaware dated no more than 15 days prior to the Initial Closing Date or the relevant Subsequent Closing Date, as the case may be.

(f) Consents and Waivers. The Company shall have obtained any and all consents and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement or the Collaboration Agreement.

(f) Listing. The Company will file a Listing of Additional Shares Application with AMEX, as applicable, with respect to the shares of Common Stock that may be issued at the Initial Closing, the Additional Common Stock that may be issued at each Subsequent Closing and the Warrant Shares.

(g) Legal Opinion. The Company shall have delivered to the Purchaser a Legal Opinion, dated as of the Subsequent Closing, from Mintz Levin Cohn Ferris Glovsky and Popeo, PC, counsel to the Company, in the form attached as Annex A hereto.

(h) Milestone Achievement. The relevant milestone with respect to the applicable Subsequent Closing identified in Section 1.2 shall have been achieved as determined and identified in Section 6.3 of the Collaboration Agreement.

4.2 Conditions to the Company's Obligations at the Initial Closing and the Subsequent Closings. The Company's obligation to issue to the Purchaser the securities at the Initial Closing and each Subsequent Closing, if any, is subject to the satisfaction by the Purchaser, on or before such applicable closing, of the following conditions:

(a) Representations and Warranties. The representations and warranties of the Purchaser contained in Article 3 shall be true and correct in all material respects on and as of the date hereof and on and as of the relevant Subsequent Closing Date with the same effect as made on and as of such date.

(b) Performance of Obligations. The Purchaser shall have performed and complied with all agreements, obligations and conditions contained in this Agreement in all material respects that are required to be performed or complied with by it on or before the Initial Closing Date or the relevant Subsequent Closing Date, as the case may be.

(c) Officer's Certificate. The Company shall have received a certificate signed by the President and Chief Executive Officer of the Purchaser attesting as to satisfaction of the conditions in Section 4.2(a) and (b) hereof.

(d) Payment of Purchase Price. The Purchaser shall have delivered to the Company and the Company shall have received payment in full of the purchase price relating to the securities to be purchased by such Purchaser at the Initial Closing Date and such relevant Subsequent Closing in accordance with Sections 1.1 and 1.2, respectively.

(e) Consents and Waivers. The Purchaser shall have obtained any and all consents and waivers necessary or appropriate for consummation of the transactions contemplated by this Agreement and the Collaboration Agreement.

(f) Milestone Achievement. The relevant milestone with respect to the applicable Subsequent Closing identified in Section 1.2 shall have been achieved as determined and identified in Section 6.3 of the Collaboration Agreement.

ARTICLE 5 FURTHER AGREEMENTS

5.1 Agreement Not To Sell. Except as otherwise contemplated by this Agreement, notwithstanding the provisions of Article 6, the Purchaser hereby agrees that for a one (1) year period commencing from (i) the date of the Initial Closing with respect to the securities issued at the Initial Closing and (ii) the dates of each of the Subsequent Closings, if any, with respect to the securities issued at each Subsequent Closing, the Purchaser shall not sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights (collectively, a "Disposition") with respect to the securities issued pursuant at the Initial Closing and the Subsequent Closings, if any, as well as the Common Stock underlying the Warrant and the Additional Warrant, if any, or any other securities of the Company issued in respect of the Warrant, the Additional Warrant or the Common Stock underlying the Warrant or the Additional Warrant (by way of stock split, stock dividend or other distribution, recapitalization or otherwise) (for purposes of this Section 5.1, collectively, the "Securities"), otherwise than with the prior written consent of the Company. The foregoing restriction has been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction that is designed to or reasonably expected to lead to or result in a Disposition of Securities during the applicable restricted period, even if such Securities would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Securities. The Purchaser also agrees and consents to the entry of stop transfer instructions with the Company's transfer agent against the transfer of Securities held by the Purchaser except in compliance with the foregoing restrictions.

5.2 20 Day Average Adjustments. The Company hereby agrees that if during any of the twenty (20) day periods that are used to calculate the 20 Day Average under Sections 1.2(a) – (e), the Company undertakes a stock split or combination that causes an immediate adjustment to the market price of its common stock during such twenty (20) day period, then the closing prices used to calculate the 20 Day Average that were unaffected by such split or combination shall be adjusted as if such split or combination had occurred prior to the calculation of the 20 Day Average.

ARTICLE 6 REGISTRATION RIGHTS

6.1 Demand Registration.

(a) At any time following the one (1) year anniversary of the Initial Closing Date (or such earlier date if the Company waives in writing the transfer restrictions contained in Article 5 hereof) if there is no registration statement in effect pursuant to Section 6.2 hereof, the Purchaser may make two (2) written requests for registration under the Securities Act covering the resale of the Initial Common Stock, the Warrant Shares and the Additional Common Stock, if any (all of them, together with any shares of capital stock issued or issuable, from time to time, upon any reclassification, share combination, share subdivision, stock split, share dividend, merger, consolidation or similar transaction or event or otherwise as a distribution on, in exchange for or with respect to any of the foregoing, in each case held at the relevant time by the Purchaser, the "Registrable Securities") by the Purchaser (each, a "Demand Registration"), it being understood that the Purchaser shall not be able to exercise its second right for a Demand Registration until after the achievement of the development milestone set forth in Section 1.2(e) hereof. Any such request will specify the number of shares of Registrable Securities proposed to be offered for sale by the Purchaser and will also specify the intended method of disposition thereof. Any Registration Statement filed pursuant to this Section 6.1 is referred to as a "Demand Registration Statement."

(b) If the Purchaser elects, the offering of the Registrable Securities pursuant to such Demand Registration Statement will be in the form of an underwritten offering. Subject to the reasonable approval of the Company (not to be unreasonably withheld or delayed), the Purchaser will select the managing underwriter and any additional underwriters in connection with the offering. If, in connection with any Demand Registration that is to be an underwritten offering, the Company or any other stockholders also desire to sell shares of Common Stock and the managing underwriter of an underwritten public offering determines and advises in writing that the inclusion of all Registrable Securities proposed to be included in the underwritten public offering, together with any shares proposed to be sold by the Company for its own account and any other issued and outstanding shares of Common Stock or other securities proposed to be included therein by holders other than the holders of Registrable Securities (such other holders' shares hereinafter collectively referred to as the "Other Shares"), would interfere with the successful marketing of the securities proposed to be included in the underwritten public offering, including the price at which such securities can be sold, then the Company will include in such registration (i) first, the Registrable Securities requested to be included by the Purchaser so that the total number of Registrable Securities to be included in such offering for the account of the Purchaser will not exceed the number recommended by such managing underwriter, (ii) second, the shares of Common Stock the Company proposes to offer for sale, which number of shares to be registered will be reduced to the extent necessary to reduce the total number of shares to be included in such offering to the number recommended by such managing underwriter and (iii) third, such number of Other Shares as the holders thereof desire to offer for sale and the Company and the managing underwriter recommend be included in such offering. The Purchaser shall be permitted to remove all or any part of the Registrable Securities held by it from any Demand Registration Statement at any time prior to the effective date of the registration statement covering such Registrable Securities.

6.2 Piggyback Registration. If the Company at any time proposes to register any of its securities under the Securities Act for sale to the public, whether for its own account or for the account of other security holders or both (except with respect to (i) any universal shelf registration statement on Form S-3 filed or which may be filed by the Company for its own account, (ii) registration statements on Forms S-4, S-8 or their successors, or any other form for a similar limited purpose, (iii) any registration statement covering only securities proposed to be issued in exchange for securities or assets of another corporation or (iv) another form not available for registering the Registrable Securities for sale to the public), each such time it will promptly give written notice to the Purchaser of its intention to do so. Upon the written request of the Purchaser, received by the Company within 20 days after the giving of any such notice by the Company (or such longer period as set forth in the Company's notice), to register any of its RegistrableSecurities, the Company will use its best efforts to cause the Registrable Securities as to which registration shall have been so requested to be included in the securities to be covered by the registration statement proposed to be filed by the Company, all to the extent requisite to permit the sale or other disposition by the Purchaser of the Registrable Securities. In the event that any registration pursuant to this Section 6.2 shall be,

in whole or in part, an underwritten public offering of Common Stock, the Purchaser's participation in such underwriting shall be on the terms set forth herein. Notwithstanding the foregoing, if the managing underwriter of an

underwritten public offering determines and advises in writing that the inclusion of all Registrable Securities proposed to be included in the underwritten public offering, together with any shares proposed to be sold by the Company for its own account and any Other Shares held by other holders would interfere with the successful marketing of the securities proposed to be included in the underwritten public offering, including the price at which such securities can be sold, then the Company will include in such registration (i) first, the Common Stock requested to be included by the Company so that the total number of shares of Common Stock included in the offering will not exceed the number recommended by the managing underwriter (ii) second, the Registrable Securities requested to be included by the Purchaser so that the total number of Registrable Securities to be included in such offering for the account of the Purchaser will not exceed the number recommended by such managing underwriter, and (iii) third, such number of Other Shares of Common Stock as the holders thereof desire to offer for sale and the Company and the managing underwriter recommend be included in such offering.

Notwithstanding the foregoing provisions, the Company may withdraw any registration statement referred to in this Section 6.2 without thereby incurring any liability to the Purchaser. The Purchaser may elect, in writing, no less than five (5) business days prior to the anticipated effective date of a Registration Statement, not to register any of its Registrable Securities. Notwithstanding anything to the contrary contained herein, the Purchaser shall not have the right to include all or any portion of the Registrable Securities in a registration statement, pursuant to this Section 6.2, if all of the Registrable Securities then held by the Purchaser becomes eligible for sale in any three (3) month period pursuant to Rule 144 under the Securities Act or any successor rule.

6.3 Registration Procedures. If and whenever the Company is under an obligation pursuant to the provisions of this Article 6 to effect the registration of any Registrable Securities, the Company shall use its best efforts to:

(a) (i) prepare and file with the SEC a registration statement with respect to such Registrable Securities, using such form of available registration statement as is reasonably selected by the Company (unless otherwise specified herein), and (ii) to cause such registration statement to become effective within ninety (90**)** days of the filing date;

(b) prepare and file with the SEC such amendments and supplements to the registration statement and the prospectus used in connection therewith as may be necessary to keep the registration statement continuously effective until the earlier (x) up to ninety (90) days or (y) the date that all Registrable Securities then held by the Purchaser becomes eligible for sale in any three (3) month period pursuant to Rule 144 under the Securities Act or any successor rule;

(c) so long as a registration statement is effective covering the resale of Registrable Securities owned by the Purchaser, furnish to the Purchaser with respect to the Registrable Securities registered under such registration statement (and to each underwriter, if any, of such Registrable Securities) such reasonable number of copies of prospectuses and such other documents as the Purchaser may reasonably request in order to facilitate the public sale or other disposition of all or any of the Registrable Securities by the Purchaser;

(d) to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Purchaser as may be legally required, provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions;

(e) at any time when a prospectus covered by a registration statement is required to be delivered under the

Securities Act, notify the Purchaser of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing and, at the request of the Purchaser prepare, file and furnish to the Purchaser a reasonable number of copies of a supplement to or an amendment of such prospectus as may be necessary so that, as thereafter delivered to the purchasers of such shares, such prospectus shall not include an untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statement therein not misleading in the light of the circumstances then existing. The Company may delay amending or supplementing the prospectus for a period of up to 30 business days in any 365 day period if the Company is then engaged in negotiations regarding a material transaction that has not been publicly disclosed, and the Purchaser shall suspend their sale of Registrable Securities until an appropriate supplement or prospectus has been forwarded to them or the proposed transaction is abandoned;

(f) in the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering (it being understood and agreed that, as a condition to the Company's obligations under this Article 6, the Purchaser participating in such underwriting shall also enter into and perform its obligations under such an agreement);

(g) use commercially reasonable efforts to prevent the issuance of any stop order or other order suspending the effectiveness of such registration statement and, if such an order issued, to obtain the withdrawal thereof at the earliest possible time and to notify the Purchaser of the issuance of such order and the resolution thereof;

(h) permit counsel for the Purchaser to review and reasonably approve the Registration Statement and all amendments and supplements thereto, and any comments made by the staff of the SEC and the Company's responses thereto, within a reasonable period of time prior to the filing thereof with the SEC (or, in the case of comments made by the staff of the SEC, within a reasonable period of time following the receipt thereof by the Company).

6.4 Furnish Information. It shall be a condition precedent to the obligations of the Company to take any action pursuant to this Section 6 that the Purchaser shall furnish to the Company such information as the Company shall reasonably request regarding itself, the Registrable Securities held by it and the intended method of disposition of such securities as shall be required to timely effect the registration of its Registrable Securities.

6.5 Expenses. All expenses incurred in connection with a registration pursuant to Section 6.1 (excluding underwriters' and brokers' discounts and commissions incurred by the Purchaser), including, without limitation all federal and "blue sky" registration and qualification fees, printers' and accounting fees, fees and disbursements of counsel for the Company shall be borne by the Company.

6.6 Indemnification. In the event any Registrable Securities are included in a registration statement under Section 6.1 hereof:

6.6.1 By the Company. To the extent permitted by applicable law, the Company will indemnify and hold harmless the Purchaser, each of its officers and directors and any person, if any, who controls the Purchaser within the meaning of the Securities Act or the Securities Exchange Act of 1934, as amended, (the "Exchange Act") (collectively, the "Purchaser Indemnitees"), against any losses, claims, damages, expenses or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages, or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "Violation"):

(i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto;

(ii) any omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading; or

(iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any federal or state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any federal or state securities law in connection with the offering covered by such registration statement;

and the Company will reimburse each Purchaser Indemnitee for any legal or other expenses reasonably incurred by them, as incurred, in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 6.6.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company (which consent shall not be unreasonably withheld), nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by the Purchaser Indemnitees.

6.6.2 By the Purchaser. To the extent permitted by applicable law, Purchaser will indemnify and hold harmless the Company, each of its directors and officers who have signed the registration statement, and any person, if any, who controls the Company within the meaning of the Securities Act or Exchange Act (collectively, the "Company Indemnitees"), against any losses, claims, damages, expenses or liabilities (joint or several) to which they become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by the Purchaser expressly for use in connection with such registration; and Purchaser will reimburse any legal or other expenses reasonably incurred by the Company Indemnitees in connection with investigating or defending any such loss, claim, damage, liability or action; provided, however, that the indemnity agreement contained in this Section 6.6.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Purchaser, which consent shall not be unreasonably withheld; and provided further, that the total amounts payable in indemnity by the Purchaser under this Section 6.6.2 in respect of any Violation shall not exceed the Purchase Price paid on the Initial Closing Date or any Subsequent Closing Date by the Purchaser out of which such Violation arises.

6.6.3 Notice. Promptly after receipt by an indemnified party under this Section 6.6 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 6.6, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties in their reasonable discretion; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, but only if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential conflict of interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, if prejudicial to its ability to defend such action, shall relieve such indemnifying party of any liability to the indemnified party under this Section 6.6, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 6.6.

6.6.4 Defect Eliminated in Final Prospectus. The foregoing indemnity agreements of the Company and Purchaser are subject to the condition that, insofar as they relate to any Violation made in a preliminary prospectus but eliminated or remedied in the amended prospectus on file with the SEC at the time the registration

statement in question becomes effective or the amended prospectus filed with the SEC pursuant to SEC Rule 424(b) (the "Final Prospectus"), such indemnity agreement shall not inure to the benefit of any person if a copy of the Final Prospectus (i) was furnished to the indemnified party and (ii) was not furnished to the person asserting the loss, liability, claim or damage at or prior to the time such action is required by the Securities Act.

ARTICLE 7 TERMINATION AND NO CROSS DEFAULT

7.1 Termination by the Purchaser. The Purchaser may terminate its obligation to purchase Additional Common Stock at any Subsequent Closing under this Agreement if the Purchaser's obligations to make development milestone payments under Section 6.3.1 of the Collaboration Agreement are terminated in accordance with Article 11 of the Collaboration Agreement.

7.2 No Cross Default. Notwithstanding anything contained herein, the Parties hereby agree that a breach by either of the Parties under this Agreement shall not be and shall not be deemed to be a breach under the Collaboration Agreement.

ARTICLE 8 MISCELLANEOUS

8.1 Notices. All notices and communications shall be in writing, mailed via certified mail, return receipt requested, courier, facsimile transmission or e-mail with acknowledgment of receipt by overnight courier addressed as follows, or to such other address as may be designated from time to time:

If to King:
501 Fifth Street
Bristol, Tennessee 37620
Tel: (423) 989-8000
Fax:
Attention: General Counsel

With a copy to:
501 Fifth Street
Bristol, Tennessee 37620
Tel: (423) 989-8000
Fax:
Attention: Business Development

If to Palatin:
Palatin Technologies, Inc.
Cedar Brook Corporate Centre
4-C Cedar Brook Drive
Cranbury, New Jersey 08512
Tel: (609) 495-2200
Fax: (609) 495-2203
Attention: Carl Spana, Ph.D.

With a copy to:
Stephen T. Wills
Palatin Technologies, Inc.
Cedar Brook Corporate Centre
4-C Cedar Brook Drive
Cranbury, New Jersey 08512
Tel: (609) 495-2200
Fax: (609) 495-2203

And a copy to:
Mintz Levin Cohn Ferris Glovsky and Popeo PC
666 Third Avenue
New York, New York 10017
Tel: (212) 935-3000
Fax: (212) 983-3115
Attention: Faith L. Charles, Esq.

Except as otherwise expressly provided in this Agreement or in writing by both Parties, any notice, communication or payment required to be given or made shall be deemed given or made and effective when received.

8.2 Governing Law. This Agreement will be construed, interpreted and applied in accordance with the laws of the State of New York (excluding its body of law controlling conflicts of law).

8.3 Amendment; Waiver. This Agreement may be amended, modified, superseded or canceled, and any of the terms may be waived, only by a written instrument executed by each Party or, in the case of waiver, by the Party or Parties waiving compliance. The delay or failure of any Party at any time or times to require performance of any provisions shall in no manner affect the rights at a later time to enforce the same. No waiver by any Party of any condition or of the breach of any term contained in this Agreement, whether by conduct, or otherwise, in any one or more instances, shall be deemed to be, or considered as, a further or continuing waiver of any such condition or of the breach of such term or any other term of this Agreement.

8.4 Headings. Section and subsection headings are inserted for convenience of reference only and do not form part of this Agreement.

8.5 Performance by Affiliates. Each Party shall have the right to direct its wholly-owned Affiliates to act in satisfaction of such Party's or Affiliate's obligations hereunder, provided that such Party shall remain liable for and unconditionally guarantee to the other Party the performance of such Affiliate hereunder. Notwithstanding the foregoing, the Company shall not have the right to direct a wholly-owned Affiliate, if any, to act in satisfaction of its obligations under Sections 1.1 and 1.2.

8.6 Assignment and Successors. Neither this Agreement nor any obligation of a Party hereunder may be assigned by either Party without the consent of the other which shall not be unreasonably withheld, except that each Party may assign this Agreement and the rights, obligations and interests of such Party, in whole or in part, to any purchaser of all of its assets and/or all of its assets to which this Agreement relates or to any successor corporation resulting from any merger or consolidation of such Party with or into such corporation. Any attempted assignment in violation of this Section 8.5 shall be null, void and of no effect.

8.7 Force Majeure. In the event of the occurrence of a Force Majeure, the Parties shall not be deemed in breach of their obligations to the extent of the Force Majeure. The Party affected thereby shall use reasonable efforts to cure or overcome the same and resume performance of its obligations hereunder.

8.8 Interpretation. The Parties hereto acknowledge and agree that: (i) each Party and its counsel reviewed and negotiated the terms and provisions of this Agreement and have contributed to its revision, (ii) the rule of construction to the effect that any ambiguities are resolved against the drafting Party shall not be employed in the interpretation of this Agreement, and (iii) the terms and provisions of this Agreement shall be construed fairly as to all Parties hereto and not in favor of or against any Party, regardless of which Party was generally responsible for the preparation of this Agreement. In addition, in the event conflicting terms exist between this Agreement and the Collaboration Agreement, the substance and interpretation of such terms shall be determined pursuant to the Collaboration Agreement.

8.9 Integration; Severability. This Agreement, the Warrant and the Collaboration Agreement are the sole agreements with respect to the subject matter hereof and supersede all other agreements and understandings between the Parties with respect to the same. If any provision of this Agreement is or becomes invalid or is ruled invalid by any court of competent jurisdiction or is deemed unenforceable, it is the intention of the Parties that the remainder of the Agreement shall not be affected.

8.10 Further Assurances. Each of the Company and Purchaser agrees to duly execute and deliver, or cause to be duly executed and delivered, such further instruments and do and cause to be done such further acts and things, including, without limitation, the filing of such agreements, documents and instruments, that may be necessary or as the other Party hereto may at any time and from time to time reasonably request in connection

with this Agreement or to carry out more effectively the provisions and purposes of, or to better assure and confirm unto such other Party its rights and remedies under, this Agreement.

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

8.12 Publicity. Neither Party may publicly disclose the existence or terms of this Agreement without the prior written consent of the other Party; provided, however, that either Party may make such a disclosure (a) to the extent required by law or by the requirements of any nationally recognized securities exchange, quotation system or over-the-counter market on which such Party has its securities listed or traded or (b) to any investors, prospective investors, lenders and other potential financing sources who are obligated to keep such information confidential for at least as long as either Party has obligations to keep such information confidential under this Agreement. In the event that such disclosure is required as aforesaid, the disclosing Party shall make reasonable efforts to provide the other Party with notice beforehand and to coordinate with the other Party with respect to the wording and timing of any such disclosure. The Parties, upon the execution of this Agreement, will mutually agree to a press release with respect to the Collaboration Agreement for publication. Once such press release or any other written statement is approved for disclosure by both Parties, either Party may make subsequent public disclosure of the contents of such statement without the further approval of the other Party.

8.13 Expenses. Except as set forth herein, each Party shall bear its own costs and expenses, including legal fees, in connection with the sale and issuance of the securities contemplated by this Agreement.

8.14 Arbitration. Any dispute, controversy or claim initiated by either Party arising out of, resulting from or relating to this Agreement, shall be resolved by binding arbitration in accordance with the provisions of Section 14 of the Collaboration Agreement.

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IN WITNESS WHEREOF, the Parties hereto have executed this Agreement or caused this Agreement to be executed by their duly authorized representatives, as of the date first written above.

PALATIN TECHNOLOGIES, INC.,

By:_____
Dr. Carl Spana
President and Chief Executive Officer

KING PHARMACEUTICALS, INC.,

By:_____
Name:
Title:

COLLABORATIVE DEVELOPMENT AND MARKETING AGREEMENT

This COLLABORATIVE DEVELOPMENT AND MARKETING AGREEMENT is entered into as of August 12, 2004 (the "Effective Date"), by and between PALATIN TECHNOLOGIES, INC., a Delaware corporation having an address of Cedar Brook Corporate Center, 4C Cedar Brook Drive, Cranbury, New Jersey 08512 ("Palatin") and KING PHARMACEUTICALS, INC., a Tennessee corporation having an address of 501 Fifth Avenue, Bristol, Tennessee 37620, ("King"). Each of King and Palatin is sometimes referred to individually herein as a " Party" and collectively as the "Parties".

WHEREAS, Palatin Controls and develops certain Technology and/or Proprietary Materials related to its proprietary treatment for sexual dysfunction; and

WHEREAS, King is engaged in the development and marketing of human therapeutics; and

WHEREAS, the Parties desire to enter into a collaboration for the purpose of Developing and Marketing Products derived from Palatin Technology and Proprietary Materials; and

WHEREAS, King has also agreed to make, simultaneous with the Closing and upon the occurrence of certain milestones specified herein, equity investments in Palatin common stock, such investments to be made pursuant to the terms of the Securities Purchase Agreement, in the form attached hereto as Exhibit H (the "Securities Purchase Agreement"), dated as of the date of the Closing, which Securities Purchase Agreement requires the issuance by Palatin of Warrants pursuant to Section 6.2.4 hereof.

NOW, THEREFORE, in consideration of the mutual covenants contained herein, and for other good and valuable consideration the receipt and sufficiency of which are acknowledged by the Parties, the Parties hereto, intending to be legally bound, agree as follows.

1. DEFINITIONS

Whenever used in this Agreement with an initial capital letter, the terms defined in this Section 1 shall have the meanings specified.

1.1 "**Accounting and Finance Plans**" means the written plans (which shall include a detailed strategy, budget, proposed timelines and all Collaboration Costs) describing the financial plans to be carried out by each Party during each Calendar Year pursuant to this Agreement which, with respect to Palatin, shall include the activities for which responsibility has been allocated to Palatin and, with respect to King, shall include the activities for which responsibility has been allocated to King. In addition, the Accounting and Finance Plan shall include all budgets for the Collaboration, including budgets for the overall Development and Marketing Program and each of the Program Plans. After the date hereof, each Accounting and Finance Plan will be set forth in a written document prepared by the Parties and approved by the JDMC and annexed as an amendment to Exhibit G. The Accounting and Finance Plans shall not create an obligation on the Parties to coordinate their accounting methods or undertake any sort of joint accounting, except to the extent specified in the definition of Collaboration Costs.

1.2 "**Action" has the meaning set forth in Section 12.5.**

1.3 "**Adverse Event**" means any life-threatening drug experience, serious adverse drug experience, unexpected adverse drug experience, expected drug experience or non-serious drug experience, all as defined in ICH Guidance ICH E2A or in any provision of the Food and Drug Act, any law, rule or regulation promulgated thereunder, or any foreign equivalent, or other similar experience in a human who is administered a Product, whether or not considered Product related, including, without limitation, any undesirable sign (including abnormal laboratory findings of clinical concern), symptom or disease associated with the use, abuse, or withdrawal of or from such Product.

1.4 "**Affiliate**" means any corporation, firm, partnership or other entity which directly or indirectly controls or is controlled by or is under common control with a Party to this Agreement. For purposes of this definition, (x) "control" means ownership, directly or through one or more Affiliates, of (a) fifty percent (50%) or more of the

shares or voting rights in case of a corporation or limited company, (b) fifty percent (50%) or more of the shares of stock entitled to vote for the election of directors, in the case of a corporation, (c) fifty percent (50%) or more of the equity or controlling interests in the case of any other type of legal entity (including, without limitation, joint ventures) or status as a general partner in any partnership, or (d) any other arrangement whereby a Party controls or has the right to control the Board of Directors or equivalent governing body of an entity, and (y) following the Merger, shall exclude Somerset Pharmaceuticals, Inc.

1.5 "**Agreement**" means this Collaborative Development and Marketing Agreement, including all attached exhibits, as well as all amendments, supplements and/or restatements thereof.

1.6 "**API**" means, with respect to a Product, the active pharmaceutical ingredient used in the Product.

1.7 "**Applicable Law**" means applicable U.S. and foreign laws, rules, regulations, guidelines and standards, including but not limited to those of the FDA and comparable foreign Regulatory Authorities.

1.8 "**Assets**" has the meaning set forth in Section 5.5.2.

1.9 "**Bankruptcy Code**" means the U.S. Bankruptcy Code, 11 U.S.C.ss.ss. 101 et seq.

1.10 "**Calendar Quarter**" means, with respect to the first such Calendar Quarter, the period beginning on the Effective Date and ending on the last day of the calendar quarter within which the Effective Date falls and, thereafter, each successive period of three (3) consecutive calendar months ending on March 31, June 30, September 30 or December 31. In the event that the termination of this Agreement does not fall on the last day of a Calendar Quarter, the "**Final Calendar Quarter**" shall mean the period from the last day of the most recent Calendar Quarter through the applicable date of termination of this Agreement.

1.11 "**Calendar Year**" means each successive twelve (12) month period commencing on January 1 and ending on December 31. The first Calendar Year of this Collaboration shall begin on the Effective Date and end on December 31, 2004. In the event that the termination of this Agreement does not fall on the last day of a Calendar Year, the "**Final Calendar Year**" shall mean the period from the last day of the most recent Calendar Year through the applicable date of termination of this Agreement.

1.12 "**Chairman**" has the meaning set forth in Section 2.2.

1.13 "**Change of Control**" means that any of the following events, to the extent permitted hereunder, has occurred: (i) any person (as such term is used in Section 13(d) of the Securities Exchange Act of 1934, as amended (the "Exchange Act")), other than a Party, any employee benefit plan of a Party or any entity organized, appointed or established by a Party for or pursuant to the terms of any such plan, together with all "affiliates" and "associates" (as such terms are defined in Rule 12b-2 under the Exchange Act) becomes the beneficial owner or owners (as defined in Rule 13d-3 and 13d-5 promulgated under the Exchange Act), directly or indirectly, of more than 50% of the outstanding equity securities of the Party, or otherwise becomes entitled, directly or indirectly, to vote more than 50% of the voting power entitled to be cast at elections for directors ("Voting Power") of the Party; (ii) a consolidation or merger (in one transaction or a series of related transactions) of a Party pursuant to which the holders of a Party's equity securities immediately prior to such transaction or series of related transactions would not be the holders, directly or indirectly, immediately after such transaction or series of related transactions of more than 50% of the Voting Power of the entity surviving such transaction or series of related transactions; (iii) the sale, lease, exchange or other transfer (in one transaction or a series of related transactions) of all or substantially all of the assets of a Party; (iv) the liquidation or dissolution of a Party or a Party ceasing to do business; and (v) a permitted assignment pursuant to Section 15.10.

1.14 "**Clinical Plans**" means the written plans (which shall include a detailed strategy, budget and proposed timelines) describing the clinical Development activities to be carried out by each Party during each Calendar Year pursuant to this Agreement which, with respect to Palatin, shall include the activities for which responsibility has been allocated to Palatin and, with respect to King, shall include the activities for which responsibility has been

allocated to King. After the date hereof, each Clinical Plan will be set forth in a written document prepared by the Parties and approved by the JDMC and annexed as an amendment to Exhibit C.

1.15 "**Closing**" shall mean, subject to the satisfaction or waiver of the conditions set forth in Section 6.1.3, the closing of the transactions contemplated by this Agreement.

1.16 "**Closing Date**" shall mean the earlier of: (i) the first (1^{st}) day, unless the first (1^{st}) day falls on a weekend or holiday, in which case it shall be the next business day, after the expiration or termination of all applicable waiting periods under the HSR Act or (ii) the first (1^{st}) day, unless the first (1^{st}) day falls on a weekend or holiday, in which case it shall be the next business day, after the joint determination (by certification from each Party to the other) that notification under the HSR Act is not required.

1.17 "**CMC**" means chemistry, manufacturing and controls activities related to Product and/or API for any Product.

1.18 "**Collaboration**" means the association of Palatin and King established pursuant to this Agreement for the purpose of conducting the Development and Marketing Program so as to accomplish the objectives of the Development and Marketing Program, including the Marketing of Products.

1.19 "**Collaboration Costs**" means, to the extent approved by the JDMC, the sum of (a) Development Costs, (b) Manufacturing/CMC Costs, (c) Marketing Costs, (d) Regulatory and IP Costs, (e) product liability costs, as contemplated by Section 5.4, (f) any other cost or expense expressly stated to be a Collaboration Cost in this Agreement or under a Program Plan, (g) quantity, trade or cash discounts, chargebacks, returns, allowances, rebates (including without limitation any and all federal, state or local government rebates, such as Medicaid rebates) and costs incurred in connection with processing the foregoing and price adjustments, to the extent actually allowed in any invoice relating to Product (to the extent not already deducted as part of the calculation of Net Sales), (h) sales and other excise taxes and duties or similar governmental charges directly related to the sale of Product (to the extent not already deducted as part of the calculation of Net Sales), and (i) any other direct and allocable internal costs and direct and allocable external costs incurred in conducting the Development and Marketing Program, all calculated in accordance with GAAP and all approved by the JDMC. Except to the extent this Agreement expressly provides for payments that do not require JDMC approval, and except to the extent the JDMC has approved any payment hereunder, neither Party shall (y) be obligated to incur any costs or expend any funds that have not been approved by such Party or (z) have the authority to cause the other party to incur any costs or expend any funds that have not been approved by such other Party. Notwithstanding anything to the contrary contained herein, Collaboration Costs shall not include (i) indirect costs, overhead, general and administrative costs and other similar costs, (ii) any costs which relate to the business of a Party as a whole without specifically referencing a Product or (iii) costs required to be paid by Palatin under the CT License Agreement (which shall be the responsibility of Palatin), including without limitation pursuant to the indemnification provisions thereof except to the extent the same are the result of the acts or omissions of King. In calculating the Collaboration Costs, the following principles shall apply: (x) there shall be no double counting of any costs or expenses or of any revenues, and to the extent a cost or expense has been included in one category or sub-category, it shall not be included in another, and to the extent any revenue has been taken into account in one category or sub-category, it shall not be taken into account in another; (y) when allocating costs and expenses under this Agreement, each Party shall utilize the same policies and principles as it utilizes consistently within its group and business units when making internal cost allocations; and (z) all costs and expenses shall be determined, and all calculations shall be made, in accordance with GAAP.

1.20 "**Collaboration License Fee**" has the meaning set forth in Section 6.2.1.

1.21 "**Collaboration Manager**" has the meaning set forth in Section 2.5.

1.22 "**Collaboration Revenue**" means the sum of (a) Net Sales and (b) all other consideration or revenue paid to or received by or on the account of a Party in connection with this Agreement, the Collaboration or the Development and Marketing Program (including, without limitation, any and all Net Sales and all consideration and revenues resulting from Development and Marketing in the ROW).

1.23 "**Completion of Phase II Clinical Trials**" means achievement of clinical endpoints agreed upon by the Clinical Committee for specific Phase II Clinical Trials for the relevant Product for a specific indication and the specific dosage strengths, which data enables the Parties to proceed with Phase III Clinical Trials, without any objection from the FDA that prevents proceeding with such Phase III Clinical Trials, as documented by FDA contact reports. For the avoidance of doubt, the "Completion of Phase II Clinical Trials" for FSD and for ED shall be independent events, and the conduct of additional Preclinical Plan and Clinical Plan activities for a given Product for a given indication (including, without limitation, additional Phase II Clinical Trials for such Product and such indication) subsequent to the first Completion of Phase II Clinical Trials for such Product shall not be deemed to and shall not be dispositive of the prior occurrence of the Completion of Phase II Clinical Trials for such Product and for such indication.

1.24 "**Completion of Phase III Clinical Trials**" means achievement of clinical endpoints agreed upon by the Clinical Committee for Phase III Clinical Trials, which data enables the Parties to file for Regulatory Approval on the relevant Product for the relevant indication.

1.25 "**Confidential Information**" means (a) all Technology produced or developed by either Party in the Development and Marketing Program, (b) all information exchanged by the Parties prior to the date hereof, and (c) with respect to a Party (the "Receiving Party"), all information, Technology and Proprietary Materials which are disclosed by the other Party (the "Disclosing Party") to the Receiving Party hereunder or to any of its employees, Consultants, Affiliates or Sublicensees, except to the extent that any such information (i) as of the date of disclosure is demonstrably known to the Receiving Party or its Affiliates, as demonstrated by credible written documentation; (ii) as of the date of disclosure is in, or subsequently enters, the public domain, through no fault or omission of the Receiving Party; (iii) is obtained from a Third Party having a lawful right to make such disclosure free from any obligation of confidentiality to the Disclosing Party; or (iv) is independently developed by or for the Receiving Party without reference to or reliance upon any Confidential Information of the Disclosing Party as demonstrated by credible written documentation. All Palatin Technology, King Technology and Joint Technology that is used in or, in the judgment of the JDMC, reasonably likely to be used in the Development and Marketing Program shall be considered, during the Term and, if the Agreement terminates earlier pursuant to Article 11, for so long as any Product is being Developed or Marketed, Confidential Information of both Parties, regardless of which Party provided or developed same; provided, however, that (x) during the Term hereof, neither Party shall be restricted from using any of its own Confidential Information outside the Field, provided, and only to the extent, that such use outside the Field does not, and would not reasonably be expected to adversely impact any intellectual property rights or commercial interests of the Collaboration, including without limitation the Development and Marketing Program; and (y) after termination of this Agreement pursuant to Section 11.2, (i) the Party with the right to Develop and Market Product after termination shall be permitted to use any of either party's Confidential Information as reasonably required in connection with such Development and Marketing and (ii) neither Party shall be restricted from using any of its own Confidential Information outside the Field, provided, and only to the extent, that such use outside the Field does not, and would not reasonably be expected to adversely impact any intellectual property rights or commercial interests of the Party with the right to Develop and Market Product after termination, with respect to such Development and Marketing.

1.26 "**Consultant**" means a third party who has entered into or hereafter enters into a written agreement with Palatin or King or both to provide consulting services that are material or are reasonably likely, in the judgment of the JDMC, to become material to the Development and Marketing Program, which written agreement, (a) includes an assignment of all right, title and interest in and to all work product and all inventions arising from the performance of such agreement, and all intellectual property rights attaching thereto, to Palatin or King, as applicable and (b) binds the relevant third party by obligations of confidentiality and non-use with respect to all such work product, inventions, Confidential Information and intellectual property rights that are at least as stringent as those set forth herein.

1.27 "**Control**" or "**Controlled**" means (a) with respect to Technology (other than Proprietary Materials) and/or Patent Rights, the possession by a Party of the ability to grant a license or sublicense of such Technology and/or Patent Rights as provided herein without the payment of additional consideration (other than any additional consideration to be paid pursuant to the CT License Agreement) and/or without violating the terms of any agreement or arrangement between such Party and any Third Party and (b) with respect to Proprietary Materials, the possession by a Party of the ability to supply such Proprietary Materials to the other Party as provided herein without the payment of additional consideration and without violating the terms of any agreement or arrangement between such Party and any Third Party.

1.28 "**Copromote**" or "**Copromotion**" means the right of Palatin, consistent with the allocation of responsibilities under the Marketing Plan, to the extent amended pursuant to Section 5.1, to copromote with King, Product in any legal manner in the Territory to the urology specialty only.

1.29 "**Copromotion Option**" has the meaning set forth in Section 5.1.

1.30 "**CT License Agreement**" means the License Agreement dated as of March 31, 1998 by and between Palatin and Competitive Technologies, Inc. (**"CT"**), a copy of which has been provided to King, as it may be amended from time to time hereafter, with the consent of King, to the extent required pursuant to Section 7.4.

1.31 **"CTM"** or **"Clinical Trial Materials"** means any Product manufactured, packaged and labeled as required by Applicable Law to be used as investigational drug or placebo for use in the conduct of clinical trials in humans.

1.32 "**Default**" means (a) a material breach, default or violation, (b) the occurrence of an event that with or without the passage of time or the giving of notice, or both, would constitute a material breach, default or violation or cause any material mortgages, liens, security interests, charges, covenants, options, claims, restrictions and encumbrances of any kind to arise, or (c) respect to a contract, the occurrence of an event that with or without the passage of time or the giving of notice, or both, would give rise to a right of termination, renegotiation or acceleration or a material right to receive damages or a payment of material monies or penalties of or under such contract by a party other than a Party.

1.33 "**Defaulting Party**" has the meaning set forth in Section 3.10.

1.34 "**Developing Party**" has the meaning set forth in Section 11.2.2(d).

1.35 "**Development**" or "**Develop**" means, with respect to a Product, all research, preclinical, pharmaceutical and clinical activities and other activities undertaken in order to obtain Regulatory Approval of such Product in accordance with this Agreement prior to Regulatory Approval of such Product. These activities shall include preclinical and clinical drug development activities, including, among other things: research, test method development and stability testing, toxicology, animal studies, statistical analysis and report writing, clinical trial design and performance prior to obtaining Regulatory Approvals, obtaining Regulatory Approvals, and regulatory affairs related to the foregoing. "Development" shall also include relevant formulation, process development, manufacturing, manufacturing scale-up, CMC, development-stage manufacturing, quality assurance, and quality control development. All of the items in the immediately preceding sentence shall be subject to King's final decision-making authority to the extent set forth in Section 2.10.2 hereof, notwithstanding the inclusion of any or all of the foregoing activities in the Preclinical Plans or Clinical Plans.

1.36 "**Development and Marketing Program**" means the collaborative development and marketing program in the Field commencing on the date hereof and conducted by Palatin and King pursuant to this Agreement and the Preclinical Plans, Clinical Plans, Manufacturing/CMC Plans, Regulatory Plans, Marketing Plans, and Accounting and Finance Plans.

1.37 "**Development Costs**" means, with respect to a Product, all costs incurred by a Party directly attributable to Development of such Product, but not including applicable Manufacturing/CMC Costs and Regulatory Costs.

1.38 “**Discretionary Funding**” has the meaning set forth in Section 2.8.2.

1.39 “**ED**” means erectile dysfunction and all related sub-indications.

1.40 “**Effective Date**” has the meaning set forth in the first paragraph of this Agreement.

1.41 “**Event of Bankruptcy**” has the meaning set forth in Section 11.2.4.

1.42 “**Expense Payment**” has the meaning set forth in Section 6.2.2.

1.43 “**FAMC**” means the fully absorbed manufacturing costs which includes direct costs and allocated costs, but not indirect and overhead costs.

1.44 “**FDA**” means the United States Food and Drug Administration or any successor agency.

1.45 “**Field**” means the palliative, prophylactic or therapeutic treatment of human sexual dysfunction, including ED and FSD.

1.46 “**Filing Party**” has the meaning set forth in Section 9.1.2.

1.47 “**First Commercial Sale**” means, with respect to any Product, the first sale for end-use or consumption, including any sale to a wholesaler or distributor, of such Product in a country after the applicable Regulatory Authority has granted Regulatory Approval. For purposes of this definition, any sale to an Affiliate or Sublicensee will not constitute a First Commercial Sale.

1.48 “**Force Majeure**” means an event beyond the reasonable control of a Party that prevents the performance, in whole or in part, by the Party of any of its obligations hereunder, including by reason of any act of God, flood, fire, explosion, earthquake, breakdown of plant, shortage of critical equipment, loss or unavailability of manufacturing facilities or material, strike, lockout, labor dispute, casualty or accident, or war, terrorist act, revolution, civil commotion, acts of public enemies, blockage or embargo, or any injunction, law, order, proclamation, regulation, ordinance, demand or requirement of any government or of any subdivision, authority or representative of any such government, if and only if the Party affected shall have used commercially reasonable efforts to avoid the effects of such occurrence and to remedy it promptly if it has occurred.

1.49 “**FSD**” means female sexual dysfunction and all related subindications.

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

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

1.52 “**GAAP**” means United States generally accepted accounting principles.

1.53 “**Good Clinical Practices**” means the international ethical and scientific quality standards for designing, conducting, recording, and reporting trials that involve the participation of human subjects. Good Clinical Practices are established through FDA guidances (including but not limited to ICH E6).

1.54 “**Good Laboratory Practices**” means the minimum standards for conducting nonclinical laboratory studies that support or are intended to support applications for research or marketing permits for products regulated by the FDA, including food and color additives, animal food additives, human and animal drugs, medical devices for human use, biological products, and electronic products. Good Laboratory Practices are established through FDA regulations (including but not limited to 21 CFR Part 58), FDA guidances, FDA current review and inspection standards and current industry standards.

1.55 “**Good Manufacturing Practices**” means the minimum standards for methods to be used in, and the facilities or controls to be used for, the manufacture, processing, packing, or holding of a drug to assure that such

drug meets the requirements of the Federal Food, Drug and Cosmetic Act of 1938, as amended, as to safety, and has the identity and strength and meets the quality and purity characteristics that it purports or is represented to possess. Good Manufacturing Practices are established through FDA regulations (including but not limited to 21 CFR Parts 210-211), FDA guidance and FDA current review and inspection standards and current industry standards.

1.56 "**HSR Act**" means the Hart-Scott-Rodino Act of 1976, as amended.

1.57 "**IND**" means (a) an Investigational New Drug Application (as defined in 21 CFR § 312.3) that is required to be filed with the FDA before beginning clinical testing of a Product in human subjects, or any successor application or procedure or (b) any counterpart of a U.S. Investigational New Drug Application that is required in any other country or region in the Territory before beginning clinical testing of a Product in human subjects in such country or region.

1.58 "**Indemnified Party**" has the meaning set forth in Section 13.3.

1.59 "**Indemnifying Party**" has the meaning set forth in Section 13.3.

1.60 "**Infringement**" has the meaning set forth in Section 9.2.1.

1.61 "**Infringement Notice**" has the meaning set forth in Section 9.2.1.

1.62 "**Initial Share Payment**" has the meaning set forth in Section 6.2.3.

1.63 "**Initial Shares**" has the meaning set forth in Section 6.2.3.

1.64 "**IRB**" has the meaning set forth in Section 12.8.

1.65 "**Joint Decision**" means any decision which must be made by the JDMC after appropriate consultations with, and discussions concerning the same by, the JDMC representatives of Palatin and King. Joint Decisions shall include any decisions expressly identified as such hereunder and any other decisions not specifically reserved to either Party hereunder.

1.66 "**Joint Development and Marketing Committee**" or "**JDMC**" means the committee of Palatin and King representatives established pursuant to Section 2.1 to administer the affairs of the Collaboration.

1.67 "**Joint Patent Rights**" means Patent Rights claiming Joint Technology.

1.68 "**Joint Technology**" means any Technology or Proprietary Materials (a) jointly developed or conceived by employees of King or Palatin, or Consultants to both King and Palatin, during the conduct of the Development and Marketing Program or (b) developed or conceived by one Party during the conduct of the Development and Marketing Program as a result of its material use of the Technology or Proprietary Materials of the other Party.

1.69 "**King Activities**" means those activities to be performed by King pursuant to this Agreement or the Program Plans.

1.70 "**King Background Technology**" means any Technology useful in the Field that is (a) Controlled by King as of the Closing Date or (b) developed or conceived by employees of, or Consultants to, King on and after the Closing Date in the conduct of activities outside the Development and Marketing Program and without the material use of any Palatin Technology, Palatin Proprietary Materials or Joint Technology.

1.71 "**King Indemnitees**" has the meaning set forth in Section 13.1.

1.72 "**King Patent Rights**" means all Patent Rights claiming King Technology.

1.73 "**King Program Technology**" means any Technology developed or conceived by employees of, or Consultants to, King, alone or jointly with Third Parties, in the conduct of the Development and Marketing Program without the material use of any Palatin Technology, Palatin Proprietary Materials or Joint Technology.

1.74 "**King Proprietary Materials**" means any Proprietary Materials that are useful in the Field that are (a) Controlled by King as of the Closing Date or (b) developed or conceived by employees of, or Consultants to, King on and after the Closing Date in the conduct of activities outside the Development and Marketing Program and without the material use of any Palatin Technology, Palatin Proprietary Materials or Joint Technology.

1.75 "**King Technology**" means, collectively, King Background Technology and King Program Technology. 1.76 "**License Fees**" means all upfront payments, milestone payments, license fees, royalties or other payments, payable to any Third Party by either Party under any Third Party license agreement or other similar agreement or arrangement (including the existing Third Party agreements utilized as part of the Collaboration, other than the CT License Agreement which shall be the sole responsibility of Palatin) to the extent such payments are attributable to the Development or Marketing of Product. If the rights under any Third Party license agreement are also attributable to products other than Products, then only an equitable portion of any amounts payable under it shall be allocated to Products as License Fees.

1.77 "**Losses**" has the meaning set forth in Section 13.1.

1.78 "**Manufacturing/CMC Costs**" means FAMC attributable to the manufacture of a Product and consistent with the Manufacturing/CMC Plan and includes, without limitation, the costs of all Third Party manufacturing, direct material, direct labor, direct services costs and manufacturing overhead consumed (including depreciation), provided or procured by manufacturing facilities in the manufacture of a Product and any other direct and/or allocated costs of all goods manufactured.

1.79 "**Manufacturing/CMC Plans**" means the written plans (which shall include a detailed strategy, budget and proposed timelines) describing the API, synthesis, choice of Manufacturers and third party suppliers, expected manufacturing scale-up, manufacture, formulation, process development, development-stage manufacture, quality assurance/quality control development, filling and/or shipping requirements for each Product (in accordance with customary standards for a product of comparable market potential), including all CMC, and the activities to be carried out by each Party during the applicable Calendar Year which, with respect to Palatin, shall include the activities for which responsibility has been allocated to Palatin and, with respect to King, shall include the activities for which responsibility has been allocated to King. After the date hereof, each Manufacturing/CMC Plan will be set forth in a written document prepared by the Parties and approved by the JDMC and annexed as an amendment to Exhibit D.

1.80 "**Manufacturing Party**" has the meaning set forth in Section 11.2.2(d).

1.81 "**Market**" or "**Marketing**" means any and all activities directed to the marketing, detailing and promotion of a Product for commercial sale and shall include pre-launch and post-launch marketing, promoting, detailing, distributing, offering to sell and selling a Product, importing a Product for sale, and any and all clinical and marketing studies conducted after obtaining marketing approval for any Product (but not including any preclinical studies), including, without limitation, all Phase IV trials that are not performed as a condition to obtaining any Regulatory Approval for a Product (which Phase IV trials shall be Development activities), and interacting with Regulatory Authorities regarding the foregoing. If a Phase IV trial is performed as a condition to obtaining any Regulatory Approval for a Product, such trial shall be considered a Development activity.

1.82 "**Marketing Costs**" means the sum of (a) all reasonable out-of-pocket costs and expenses incurred by a Party directly attributable to the following functions for the sale, promotion and marketing of a Product in the

Territory: (i) market research on such Product or relevant indications, (ii) marketing communications, (iii) corporate accounts, (iv) managed care, (v) sales force training, (vi) product hotlines, (vii) reimbursement support, (viii) contracting, (ix) pricing, (x) telemarketing services, (xi) distribution costs, including freight, insurance, warehousing, order entry and billing, (xii) the cost of Product detailing of a Party's sales force plus reasonable out-of-pocket costs and expenses paid to Third Parties for product details provided by such Third Parties, (xiii) patient registries, if required, (xiv) the cost of Product samples, and (xv) all reasonable out-of-pocket costs and expenses incurred by a Party and directly attributable to the promotion of a Product in the Territory and (b) Personnel Costs incurred by a Party directly attributable to marketing personnel and support staff working (either full time or part of the time) on the Marketing of Products in the Territory. Examples of functions that would be included in the marketing headcount cost are: Marketing, marketing communications, clinical research and educational managers, clinical support managers, corporate accounts, managed care, product hotlines, sales forecasting, reimbursement support (government economic managers), marketing research, contracting and pricing.

1.83 "**Marketing Plans**" means the written plans (which shall include a detailed strategy, budget and proposed timelines and the pre-launch and launch activities to be undertaken) describing the Marketing activities to be carried out by each Party during each applicable Calendar Year pursuant to this Agreement which, with respect to Palatin, shall include the activities for which responsibility has been allocated to Palatin and, with respect to King, shall include the activities for which responsibility has been allocated to King. After the date hereof, each Marketing Plan will be set forth in a written document prepared by the Parties and approved by the JDMC and annexed hereto as an amendment to Exhibit F.

1.84 "**Merger**" means the merger contemplated by the Agreement and Plan of Merger by and among Mylan Laboratories Inc., Summit Merger Corporation and King, dated as of July 23, 2004.

1.85 "**NA**" means the countries and jurisdictions in North America, including Canada, Mexico, and Puerto Rico, and any other US protectorates, territories and possessions.

1.86 "**NDA**" means a New Drug Application to market the Product in the Territory or similar application submitted to the FDA, or its foreign equivalent submitted to any Regulatory Authority in the ROW, and all supplements and amendments thereto.

1.87 **"Net Sales"** means the gross amount invoiced to non-Affiliate Third Parties for sale of Products, less, to the extent deducted from or on such invoice consistent with GAAP, the following items: (i) quantity, trade or cash discounts, chargebacks, returns, allowances, rebates (including without limitation any and all federal, state or local government rebates, such as Medicaid rebates) and price adjustments, to the extent actually allowed; (ii) sales and other excise taxes and duties or similar governmental charges directly related to such sale, to the extent such items are included in the gross invoice price; (iii) amounts actually refunded due to rejected, spoiled, damaged, outdated or returned Product; and (iv) freight, shipment and insurance costs actually incurred in transporting Product to a Third Party purchaser. If any Products are sold to Third Parties in transactions that are not at arm's length between the buyer and seller, then the gross amount to be included in the calculation of Net Sales for such sales shall be the amount that would have been invoiced had the transaction been conducted at arm's length, which amount shall be determined, whenever possible, by reference to the average selling price of the relevant Product in arm's-length transactions in the country of sale at the time of sale. If any Products are sold to Third Parties for consideration other than cash or for consideration that is not readily ascertainable, then the gross amount to be included in the calculation of Net Sales for such sales shall be determined based on the reasonable value of the consideration given, taking into account the average selling price of the relevant Product in arm's-length transactions in the country of sale at the time of sale. Any goods or services provided in exchange of the supply, disposal of Product for, or use of Product, in clinical or preclinical trials or as free samples (such samples to be in quantities common in the industry for this sort of Product) shall not give rise to any deemed sale under this Section.

1.88 "**Non-Defaulting Party**" has the meaning set forth in Section 3.10.

1.89 "**Non-Proceeding Party**" has the meaning set forth in Section 11.2.3(g).

1.90 “**Non-Target Party**” has the meaning set forth in Section 5.5.2.

1.91 “**Palatin Activities**” means those activities to be performed by Palatin pursuant to this Agreement and the Program Plans.

1.92 “**Palatin Background Technology**” means any Technology that is used or useful in the Field and that is (a) Controlled by Palatin as of the Closing Date or (b) developed, acquired or conceived by employees of, or Consultants to, Palatin on and after the Closing Date in the conduct of activities outside the Development and Marketing Program and without the material use of any King Technology, King Proprietary Materials, Joint Technology or Palatin Program Technology.

1.93 “**Palatin Indemnitees**” has the meaning set forth in Section 13.2.

1.94 “**Palatin Patent Rights**” means all Patent Rights claiming Palatin Technology. For the avoidance of doubt, the Palatin Patent Rights are understood to include, without limitation, United States Patent No. 6,579,968 and United States Patent Application Nos. 10/040,547 and 10/638,071, including any patents issuing from such applications, along with all patent rights included in the CT License Agreement.

1.95 “**Palatin Program Technology**” means any Technology developed or conceived by employees of, or Consultants to, Palatin, alone or jointly with Third Parties, in the conduct of the Development and Marketing Program, without the material use of any King Technology, King Proprietary Materials or Joint Technology.

1.96 “**Palatin Proprietary Materials**” means any Proprietary Materials that are useful in the Field and that are (a) Controlled by Palatin as of the Closing Date or (b) developed or conceived by employees of, or Consultants to, Palatin on and after the Closing Date in the conduct of activities outside the Development and Marketing Program and without the material use of any King Technology, King Proprietary Materials, or Joint Technology.

1.97 “**Palatin Technology**” means, collectively, Palatin Background Technology and Palatin Program Technology.

1.98 “**Patent Coordinator**” has the meaning set forth in Section 8.3.

1.99 “**Patent Rights**” means the rights and interests in and to issued patents and pending patent applications (which for purposes of this Agreement shall be deemed to include certificates of invention and applications for certificates of invention and priority rights) in any country, including all provisional applications, substitutions, continuations, continuations-in-part, divisions, and renewals, all letters patent granted thereon, and all reissues, reexaminations and extensions thereof, Controlled by a Party.

1.100 “**Personnel Costs**” means the reasonable costs of employment of personnel employed by or under contract to a Party, including, but not limited to, salaries, benefits (including the costs of cars or allowances therefor), travel, lodging, meals and office and computing supplies.

1.101 “**Phase II Clinical Trial**” means a human clinical trial in any country that is intended to evaluate the effectiveness of the drug for a particular indication or indications in patients with the disease or condition under study and to determine the common short-term side effects and risks associated with the drug or that would otherwise meet the definition of 21 CFR 312.21(b), or its foreign equivalent.

1.102 “**Phase III Clinical Trial**” means a human clinical trial in any country that would otherwise meet the definition of 21 CFR 312.21(c), or its foreign equivalent.

1.103 “**Preclinical Plans**” means the written plans (which shall include a detailed strategy, budget and proposed

timelines) describing the preclinical Development activities to be carried out by each Party during each Calendar Year pursuant to this Agreement which, with respect to Palatin, shall include the activities for which responsibility has been allocated to Palatin and, with respect to King, shall include the activities for which responsibility has been allocated to King. After the date hereof, each Preclinical Plan will be set forth in a written document prepared by the Parties and approved by the JDMC and annexed as an amendment to Exhibit B.

1.104 "**Proceeding Party**" has the meaning set forth in Section 11.2.3(g).

1.105 "**Product**" means (1) any product for use in the Field (including without limitation, any composition of matter, procedure, process or method) (a) the manufacture, use or sale of which infringes any claim included within the Palatin Patent Rights, (b) which incorporates, is discovered as a result of the use of, or is otherwise derived from, PT-141 or any fragment or variant thereof or any analog thereof or, to the extent applicable, any pro-drug, metabolite, isomer, enantiomer, salt or ester thereof or any combination of any of the foregoing, including the use of PT-141 in combination with one or more other actives and in any formulation including, without limitation, in any delivery method, or (c) which incorporates, is derived from or is discovered as a result of the use of melanocortin agonists and (2) any other product the JDMC agrees to Develop or Market pursuant to this Agreement and (3) any device containing any of the foregoing.

1.106 "**Product Trademark(s)**" means any trademarks and trade names, whether or not registered, and any trademark applications, renewals, extensions or modifications thereto in the Territory together with all goodwill associated therewith, trade dress and packaging which are applied to or used with Products, and any promotional materials relating thereto.

1.107 "**Program Plans**" means the Preclinical Plans, the Clinical Plans, the Manufacturing/CMC Plans, the Regulatory Plans, the Marketing Plans, and the Accounting and Finance Plans.

1.108 "**Proprietary Materials**" means any tangible chemical, biological or physical research materials that are furnished by or on behalf of one Party to the other Party in connection with this Agreement, regardless of whether such materials are specifically designated as proprietary by the transferring Party.

1.109 "**PT-141**" means the peptide sequence Ac-Nle-cyclo(-Asp-His-D-Phe-Arg-Trp-Lys)-OH.

1.110 "**Recipient**" has the meaning set forth in Section 3.9.

1.111 "**Regulatory Approval**" means approval by the FDA or other Regulatory Authority to market a Product in a regulatory jurisdiction.

1.112 "**Regulatory Authority**" means the FDA or any counterpart of the FDA outside the United States, or other national, supra-national, regional, state or local regulatory agency, department, bureau, commission, council or other governmental entity with authority over the distribution, importation, exportation, manufacture, production, use, storage, transport or clinical testing, pricing and/or sale of a Product, including any device incorporating the Product.

1.113 "**Regulatory Filings**" means, collectively, any and all INDs and drug master files (**DMFs**), NDAs, applications for any device incorporating the Product, applications for designation of a Product as an "Orphan Product(s)" under the Orphan Drug Act or any other similar filings (including any foreign equivalents and further including any related correspondence and discussions), and all data contained therein, as may be required by or submitted to any Regulatory Authority for the Regulatory Approval.

1.114 "**Regulatory and IP Costs**" means Personnel Costs, reasonable out-of-pocket costs and expenses (e.g., filing fees, user fees, annual product and facility registration fees, permit fees and the like) incurred by a Party directly attributable (i) to obtaining or maintaining Regulatory Approvals for a Product (including any device incorporating the Product) (including, for example, communications and meetings with Regulatory Authorities) and satisfying all registration and other requirements of Regulatory Authorities within the Territory (including, for example, adverse event reporting and Product pricing approvals) in connection with each Party's activities under the Development and Marketing Program, and (ii) to preparing, filing, prosecuting, maintaining, enforcing and defending Patent Rights or Technology as contemplated in Section 9 hereof.

1.115 “**Regulatory Plans**” means the written plans (which shall include a detailed strategy, budget and proposed timelines) describing the regulatory activities, including the timing and conduct of meetings, discussions and correspondence with Regulatory Authorities, to be carried out by each Party during the applicable Calendar Year which, with respect to Palatin, shall include the activities for which responsibility has been allocated to Palatin and, with respect to King, shall include the activities for which responsibility has been allocated to King, and the expected Regulatory Filings to be completed and maintained by the Collaboration, for each Product. After the date hereof, each Regulatory Plan will be set forth in a written document prepared by the Parties and approved by the JDMC and annexed as an amendment to Exhibit E.

1.116 “**ROW**” means all countries and jurisdictions in the world, other than NA.

1.117 “**Securities Purchase Agreement**” has the meaning set forth in the recitals to this Agreement.

1.118 “**Sublicensee**” means any Third Party (other than an Affiliate) to which a Party or both Parties grant a sublicense of some or all of the rights granted to one another under this Agreement as permitted by this Agreement.

1.119 “**Supply**” has the meaning set forth in Section 11.2.2(d).

1.120 “**Surviving Entity**” has the meaning set forth in Section 5.5.1.

1.121 “**Target Party**” has the meaning set forth in Section 5.5.1.

1.122 “**Technology**” means and includes all inventions, discoveries, improvements, trade secrets and proprietary methods and materials, whether or not patentable, relating to the Field, including but not limited to (a) samples of, methods of production or use of, and structural and functional information pertaining to, chemical compounds, proteins or other biological substances and (b) data, formulations, techniques and know-how (including any negative results).

1.123 “**Term**” means the term of this Agreement as set forth in Section 11.1.

1.124 “**Terminated Region**” has the meaning set forth in Section 11.2.

1.125 “Territory” means NA.

1.126 “**Third Party**” means any person or entity other than King and Palatin and their respective Affiliates.

1.127 “**Third Party Agreements**” has the meaning set forth in Section 3.10.

1.128 “**Transferor**” has the meaning set forth in Section 3.9.

1.129 “**Vice Chairman**” has the meaning set forth in Section 2.2.

2. ADMINISTRATION OF THE COLLABORATION

2.1 **Establishment and Function of JDMC**. Palatin and King shall establish the JDMC within thirty (30) days of the Closing Date to plan, administer and monitor the Development and Marketing Program, including all activities set forth in the Program Plans. In particular, the JDMC shall review and approve, or recommend revisions to, the Program Plans, review and monitor the progress of the Development and Marketing Program and recommend necessary adjustment to the Development and Marketing Program. In planning, administering and monitoring the Development and Marketing Program, the JDMC shall allocate tasks and responsibilities, taking into account each Party’s respective specific research and development capacities and expertise in order to avoid duplication and to

enhance synergies, as well as comply with the requirements of this Agreement.

2.2 **Membership**. Each Party shall appoint, in its sole discretion, three (3) members to the JDMC (which members shall be employees of such Party). Unless otherwise agreed by the members of the JDMC, the chairmanship and vice chairmanship of the JDMC shall rotate between the Parties. The first appointment period shall begin on the date hereof and end on December 31, 2005. For such period, in light of the fact that Palatin has solely developed the Product prior to the date hereof, Palatin shall designate the chairman (the "Chairman") and King shall designate the vice chairman (the "Vice Chairman"). Thereafter, appointments of Chairman and Vice Chairman shall rotate on a Calendar Year basis. Each Party shall have the right at any time to substitute individuals, on a permanent or temporary basis, for any of its previously designated representatives to the JDMC, by giving written notice thereof to the other Party.

2.3 **Committees.** The JDMC will appoint an Accounting and Finance Committee Preclinical Committee, Clinical Committee, Manufacturing/CMC Committee and the Marketing Committee pursuant to Section 2.4 (each of whose members shall be employees of such Party). Otherwise, the JDMC shall have the right and power to appoint and delegate its responsibilities to other committees as reasonably needed to accomplish their work and the composition and eligibility requirements for the same shall be agreed by the members of the JDMC. Such committees may include, for the oversight and administration of each Program Plan, the Regulatory Committee. Except as otherwise mandated by the JDMC in its minutes, each committee established by the JDMC shall be governed by the rules and guidelines applicable to the JDMC set forth in this Agreement. The JDMC shall set forth clearly each such committee's decision making responsibilities that have been delegated to it by the JDMC. Any member of a committee may send a designee to observe a committee if such member is unable to attend, but such observer shall not vote in such member's place unless given a written proxy from such member of the committee. Each Party shall have the right at any time to substitute individuals, on a permanent or temporary basis, for any of its previously designated representatives to any committee, by giving written notice thereof to the other Party. If an issue to be addressed by a committee appears to fall within the oversight and administration of more than one committee, such committees shall confer with each other to determine which committee shall oversee and administer such issue.

2.4 Appointment of Committees.

2.4.1 Accounting and Finance Committee. Promptly after the appointment of the JDMC, the JDMC will appoint an Accounting and Finance Committee composed of two (2) members designated by each Party, both of whom shall be employees of the relevant Party. The JDMC shall delegate to the Accounting and Finance Committee its responsibility for making all decisions, subject to final JDMC review and approval, relating to accounting, budgets, Collaboration Cost allocation, Collaboration Revenue allocation and all other matters related to accounting and finance. Except as otherwise mandated by the JDMC in its minutes, the Accounting and Finance Committee shall otherwise be governed by the rules and guidelines applicable to the JDMC set forth in this Agreement.

2.4.2 Preclinical Committee. Promptly after the appointment of the JDMC, the JDMC will appoint a Preclinical Committee comprised of two (2) members designated by each Party, both of whom shall be employees of the relevant Party. The JDMC shall delegate to the Preclinical Committee its responsibility for making all decisions, subject to final JDMC review and approval, relating to the Preclinical Plans. Except as otherwise mandated by the JDMC in its minutes, the Preclinical Committee shall otherwise be governed by the rules and guidelines applicable to the JDMC set forth in this Agreement.

2.4.3 Clinical Committee. Promptly after the appointment of the JDMC, the JDMC will appoint a Clinical Committee comprised of two (2) members designated by each Party, both of whom shall be employees of the relevant Party. The JDMC shall delegate to the Clinical Committee its responsibility for making all decisions, subject to final JDMC review and approval, relating to the Clinical Plans. Except as otherwise mandated by the JDMC in its minutes, the Clinical Committee shall otherwise be governed by the rules and guidelines applicable to the JDMC set forth in this Agreement. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

2.4.4 Manufacturing/CMC Committee. Promptly after the appointment of the JDMC, the JDMC will appoint a Manufacturing/CMC Committee comprised of two (2) members designated by each Party, both of whom shall be employees of the relevant Party. The JDMC shall delegate to the Manufacturing/CMC Committee its responsibility for making all decisions, subject to final JDMC review and approval, relating to the Manufacturing/CMC Plans. Except as otherwise mandated by the JDMC in its minutes, the Manufacturing/CMC Committee shall otherwise be governed by the rules and guidelines applicable to the JDMC set forth in this Agreement.

2.4.5 Marketing Committee. Promptly after the appointment of the JDMC, the JDMC will appoint a Marketing Committee comprised of two (2) members designated by each Party, both of whom shall be employees of the relevant Party. The JDMC shall delegate to the Marketing Committee its responsibility for making all decisions, subject to final JDMC review and approval, relating to the Marketing Plans. Except as otherwise mandated by the JDMC in its minutes, the Marketing Committee shall otherwise be governed by the rules and guidelines applicable to the JDMC set forth in this Agreement.

2.5 **Collaboration Manager**. Promptly after the Effective Date, each Party shall appoint a collaboration manager (the "Collaboration Manager"). The Collaboration Managers shall be the primary contact between the JDMC and all committees appointed by the JDMC. The Collaboration Managers shall regularly consult with the heads of each such committee and each Party will cause each such committee head to cooperate fully with each Collaboration Manager. The Collaboration Managers shall timely address all issues and concerns raised by any member of the JDMC or any committee, as well as collect and provide to the JDMC or to any committee all information requested by the JDMC or such committee concerning any aspect of the Development and Marketing Program. Each Party shall have the right, upon prior written notice to the other Party, to substitute for its current Collaboration Manager another of its employees, on a permanent or temporary basis.

2.6 **Meetings.**

2.6.1 **Schedule of Meetings**. The JDMC shall establish a schedule of times for meetings, taking into account, without limitation, the planning needs of the Development and Marketing Program and the need of the JDMC to consult and/or render decisions with respect to any Joint Decisions. Meetings shall also be convened upon the determination of any member, by prior written notice thereof of not less than three (3) business days to the remaining members of the JDMC, that a meeting of the JDMC is required to discuss and/or resolve any matter or matters with respect to the Collaboration. In no event shall the JDMC meet less frequently than quarterly. Meetings shall alternate between the respective offices of the Parties in Cranbury, New Jersey; Bristol, Tennessee; Princeton, New Jersey, or Cary, North Carolina; or another mutually agreed upon location; provided, however, that the Parties may mutually agree to meet by teleconference or video conference or may act by a written memorandum executed by the members of the JDMC.

2.6.2 **Quorum; Voting; Decisions**. At each JDMC meeting, one member designated by each Party shall constitute a quorum. Each Party's JDMC members present at any meeting shall together have one vote on all matters before the JDMC. All decisions of the JDMC shall be made by unanimous vote. Whenever any action by the JDMC is called for hereunder during a time period in which the JDMC is not scheduled to meet, the Chairman shall cause the JDMC to take the action in the requested time period by calling a special meeting or by causing the JDMC to take such action without a formal meeting by written memorandum, as provided in Section 2.6.1. The Chairman shall provide prior written notice of not less than three (3) business days of the same to all JDMC members. Representatives of each Party or of its Affiliates who are not members of the JDMC, may attend JDMC meetings or committee meetings as non-voting observers at the invitation of either Party with the prior approval of the other Party, which approval shall not be unreasonably withheld. In the event that the JDMC is unable to resolve any matter before it, such matter shall be resolved as set forth in Section 2.10 hereof.

2.6.3 **Agenda and Minutes**. An agenda for each JDMC meeting shall be circulated no less than three (3) days prior to the meeting, to the extent practicable. The JDMC shall keep accurate minutes of its deliberations which record all proposed decisions and all actions recommended or taken. Drafts of the minutes shall be delivered to the members of the JDMC within a reasonable time, not to exceed ten (10) days after the meeting. The Party not filling the Chairmanship of the JDMC shall have responsibility for the preparation and circulation of the draft minutes. Draft minutes shall be then be edited by the Chairman and Vice Chairman and shall be issued in final form within a reasonable time not to exceed fourteen (14) days after the meeting.

2.6.4 **Expenses**. Palatin and King shall each bear all expenses of their respective JDMC members related to their participation on the JDMC and attendance at JDMC meetings.

2.7 **Decision-Making Responsibilities**. The JDMC shall be solely responsible for making all decisions specified as Joint Decisions hereunder and all decisions not specifically reserved to either Party hereunder, including, but not limited to, decisions with respect to the following matters:

2.7.1 the definition, review, approval and amendment (not less than annually) of each Program Plan and all related strategy and objectives (but not the actual conduct of such plans);

2.7.2 definition, review and approval of and changes to the strategy and objectives (but not the actual conduct) of the Collaboration;

2.7.3 management and allocation of resources of the Collaboration;

2.7.4 management and oversight of all Patent Rights and Technology used in connection with Product;

2.7.5 proposal of all budgets for the Collaboration;

2.7.6 review and approval of all subcontracts, sublicenses and Third Party licenses (other than the CT License Agreement and expressly including, without limitation, any and all supply and manufacturing agreements) and other agreements required or entered into in connection with the Collaboration, and any and all amendments thereto, including without limitation a determination, with respect to each such subcontract, sublicense, license or agreement, regarding whether it is appropriate to require the inclusion of the bankruptcy-protection provision set forth in Section 3.10 hereof;

2.7.7 performance of such other functions as appropriate to further the purposes of this Agreement and the Collaboration as determined from time to time by the Parties.

2.8 Collaboration Costs Overruns and Additional Expenditures.

2.8.1 The Accounting and Finance Plans shall set forth a budget with respect to all material tasks required to be conducted by the Parties pursuant to the other Program Plans. Each Party shall use commercially reasonable efforts to complete all tasks assigned to it pursuant to the Program Plans in accordance with the funding allocated to such tasks in the Accounting and Finance Plans. In the event either Party anticipates or becomes aware that the actual costs of any given task assigned to it may or will likely exceed the funds allocated to such task, such Party shall promptly notify the JDMC. The Accounting and Finance Committee, and the committee charged with primary oversight responsibility for the task in question, shall work together in good faith for up to thirty (30) days to determine whether to readjust the budget to allocate additional funds to such task, to revise the scope of such task to permit satisfactory completion at the then-budgeted funding level, or both. In the event no decision is reached, the matter shall be subject to the provisions of Section 2.10 hereof.

2.8.2 Notwithstanding the foregoing, either Party may, in its discretion, spend additional amounts above and beyond those allocated in the Accounting and Finance Plans ("Discretionary Funding") on any task assigned to such Party pursuant to the other Program Plans or on any other task the JDMC has approved. In such event, the Party wishing to expend Discretionary Funding shall first inform the other Party of its intent to do so. If such other Party consents to such Discretionary Funding being deemed a Collaboration Cost, such Discretionary Funding

shall constitute a Collaboration Cost, and the rights and obligations of the Parties with respect to such Collaboration Costs, and any Collaboration Revenues and intellectual property, regulatory or other intangible rights derived from or generated by such Discretionary Funding, shall be determined in accordance with the terms and conditions of this Agreement as they apply to the Collaboration. If such other Party does not consent, then such Discretionary Funding shall not constitute a Collaboration Cost, but shall be borne solely by the Party undertaking the Discretionary Funding, and the Parties shall negotiate in good faith, prior to the expenditure of the Discretionary Funding, the rights and obligations of the Parties with respect to such Discretionary Funding and any Collaboration Revenues and intellectual property, regulatory or other intangible rights derived therefrom or generated thereby.

2.8.3 Except to the extent this Agreement expressly provides for payments that do not require JDMC approval, and except to the extent the JDMC has approved any payment hereunder, neither Party shall (i) be obligated to incur any costs or expend any funds that have not been approved by such Party or (ii) have the authority to cause the other party to incur any costs or expend any funds that have not been approved by such other Party.

2.9 **Interests of the Parties**. Notwithstanding any other provisions of this Agreement, all decisions made and all actions taken by the JDMC, by Palatin or by King with respect to any Collaboration matter, shall be made or taken in the best interest of the Collaboration, subject in all respects to the fiduciary duties of the Parties to their respective shareholders.

2.10 Dispute Resolution.

2.10.1 In the event any committee shall not be able to reach a decision or take an action appointed to it, then such decision or matter shall first be referred for resolution to the JDMC. In the event that the JDMC shall not be able to reach a decision or take an action on any matter referred by a committee, any Joint Decision or any other matter which is reserved to the JDMC or the Accounting and Finance Committee or any other committee delegated decision-making authority by the JDMC hereunder, then such Joint Decisions or such other unresolved matters shall first be referred for resolution to the Chief Executive Officer of each Party for attempted resolution by good faith negotiation. Such good faith negotiation may include the appointment by either Party of an unaffiliated Consultant, who shall be a scientific expert chosen based on such person's experience and expertise in the particular type of issue which is unresolved to advise such officers on the matter.

2.10.2 If such officers are unable to resolve the matter within ten (10) days, then

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

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

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

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

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

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

3. **DEVELOPMENT AND MARKETING PROGRAM**

3.1 **Objectives of the Development and Marketing Program**. The objectives of the Development and Marketing Program shall be the Development, manufacture and Marketing of Products within the Field in the Territory and the joint licensing of the rights under this Agreement to Third Parties for development and marketing of Product in the ROW.

3.2 **Program Plans Generally**. In consultation with the JDMC and in accordance with the strategy and objectives of the Program Plans, each Party shall be primarily responsible for those tasks assigned it as set forth on each Program Plan attached hereto and such obligations set forth in this Agreement. Unless otherwise set forth in any Program Plan, Palatin shall have the sole right and responsibility to conduct all Palatin Activities and King shall have the sole right and responsibility to conduct all King Activities. Annexed hereto as Exhibit A is a preliminary plan for the Development and Marketing Program. Within thirty (30) days after the Effective Date and after consideration of the Exhibit A, the JDMC shall take such actions necessary to define, generate and approve each Program Plan for the first Calendar Year, which Program Plans shall supplant Exhibit A as operational documents for the conduct of the Development and Marketing Program. The JDMC shall ensure that the Program Plans, including without limitation all timelines set forth therein, are consistent with each other and accurately reflect the objectives set forth in the Development and Marketing Plan. Each Program Plan for such first Calendar Year will then be attached hereto as Exhibit B (Preclinical Plan), Exhibit C (Clinical Plan), Exhibit D (Manufacturing/CMC Plan), Exhibit E (Regulatory Plan), Exhibit F (Marketing Plan), and Exhibit G (Accounting and Finance Plan). For each year of the Development and Marketing Program commencing with the second Calendar Year, the Program Plans shall be amended and updated by Palatin and King and approved by the JDMC as directed by the JDMC no later than thirty (30) days prior to the end of the prior Calendar Year and shall be attached hereto as Exhibits B-1, C-1, D-1, E-1, etc. Each Program Plan shall be in writing and shall set forth, with reasonable specificity, research objectives and tasks to be performed by each of the Parties for the period covered by the Program Plan as agreed by the JDMC and as specifically set forth in this Agreement. Any Program Plan may be amended by the JDMC at any time upon the unanimous request of the representatives of the applicable committee. Except to the extent specifically directed by the JDMC in each Program Plan, the decisions as to how to perform the tasks assigned to Palatin and King in any Program Plan shall be Palatin decisions and King decisions, respectively. Although not specifically a part of a Program Plan, all issues and activities relating to Patent Rights and Technology used in connection with a Product shall be subject to oversight of the JDMC.

3.3 Preclinical Plans. Unless and until otherwise agreed by the JDMC, the following terms and conditions are hereby incorporated into each Preclinical Plan. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

3.4 Clinical Plans. Unless and until otherwise agreed by the JDMC, the following terms and conditions are hereby incorporated into each Clinical Plan. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

3.5 **Manufacturing/CMC Plans.** Unless and until otherwise agreed by the JDMC, the following terms and conditions are hereby incorporated into each Manufacturing/CMC Plan. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

3.6 **Regulatory Plans**. Unless and until otherwise agreed by the JDMC, the following terms and conditions are hereby incorporated into each Regulatory Plan. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

3.7 Marketing Plans.

3.7.1 Unless and until otherwise agreed by the JDMC, the following terms and conditions are hereby incorporated into each Marketing Plan. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE**

24b-2.]

3.7.2 With respect to King's activities under the Marketing Plan, King shall use commercially reasonable efforts to

Develop and Market the Product commensurate with industry standards in accordance with Section 3.13 hereof. With respect to King's activities under the Marketing Plan, King hereby agrees, as part of any Marketing Plan and in a manner consistent with Section 3.13 hereof, to establish and maintain its infrastructure and staffing and otherwise maintain its expertise for Marketing Product at levels (i) commensurate with industry standards for products of similar market potential and at a similar stage in development as the applicable Product, taking into account the competitiveness of the marketplace, the proprietary position of the Product, and the efforts and resources available to a company having a comparable market capitalization (taking King and its Affiliates together) and (ii) customary and reasonable in light of then-current market conditions. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

3.8 Accounting and Finance Plans. Unless and until otherwise agreed by the JDMC, the following terms and conditions are hereby incorporated into each Accounting and Finance Plan. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

3.9 **Supply of Proprietary Materials**. From time to time during the Term of this Agreement, either Party (the "Transferor") may supply the other Party (the "Recipient") with its Proprietary Materials to the extent the parties, the JDMC or the relevant committee reasonably believe that such Proprietary Materials would be useful in the Development and Marketing Program or to the extent such Proprietary Materials are required to be so provided pursuant to any Program Plan. In connection therewith, the Recipient hereby agrees that (a) it shall not use Proprietary Materials for any purpose other than exercising any rights or fulfilling any obligations granted to it or reserved by it hereunder; (b) it shall use the Proprietary Materials only in compliance with all applicable, federal, state, and local laws and regulations; (c) it shall not transfer any Proprietary Materials to any Third Party for use without the prior written consent of the Transferor, except as expressly permitted hereby; (d) the Transferor shall retain full ownership of all such Proprietary Materials; and (e) upon the expiration or termination of this Agreement, the Recipient shall at the instruction of the Transferor either destroy or return any Proprietary Materials which are not the subject of the grant of a continuing license hereunder. In addition, each of Palatin and King agrees that, during the Development and Marketing Program neither Party shall transfer to any Third Party, without the approval of the other Party, any Joint Technology, including without limitation any tangible embodiments thereof.

3.10 **Third Party Licenses and Collaborations**. Subject to Section 2.7.6, King, Palatin or both may enter into such Third Party licenses, collaborations, and supply and manufacturing agreements and, solely with respect to the ROW, sublicenses as are reasonably necessary in the judgment of the JDMC to accomplish the objectives and purposes of the Collaboration. Each such agreement shall (a) if only one Party is a party to the agreement, name the other Party as a third party beneficiary to such agreement, (b) include an assignment of all right, title and interest in and to all work product and all inventions arising from the performance of such agreement, and all intellectual property rights attaching thereto to the contracting Party, and (c) bind the relevant third party by obligations of confidentiality and non-use with respect to all such work product, inventions, and intellectual property rights that are at least as stringent as those set forth herein. In order to ensure the ability of a Party ("Non-Defaulting Party") to proceed with the Development and Marketing Program notwithstanding the occurrence of any Default or Event of Bankruptcy on behalf of the other Party ("Defaulting Party"), the JDMC shall, in its discretion, require the inclusion, in those subcontracts, sublicenses, licenses and other agreements (including manufacturing and supply agreements) entered into in connection with the Collaboration and subject to the JDMC's approval pursuant to Section 2.7.6 hereof ("Third Party Agreements") that are or are likely to become material to the conduct of the Development and Marketing Program, of an enforceable provision granting to the Non-Defaulting Party hereto an automatic assignment, contingent upon an Event of Bankruptcy of the Defaulting Party or a Default by the Defaulting Party of that Third Party Agreement, pursuant to which all of the Defaulting Party's rights and obligations under such Third Party Agreement shall automatically and without any acts of any Party hereto or thereto be assigned to the Non-Defaulting Party, who hereby agrees to assume such obligations.

3.11 **Option to Perform.** In the event that a Party does not perform a task or tasks assigned to it by the JDMC under a Program Plan, including, without limitation, due to a dispute as to the budget or scope of such task, and the omission of performance or initiation of performance of such task could reasonably be expected to have a material adverse effect on the Collaboration, the other Party has the right but not the obligation, to perform such

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

3.12 **Collaborative Efforts and Reports**. The Parties hereby acknowledge and agree that the successful execution of the Development and Marketing Program will require the collaborative use of both Parties' areas of expertise. Each Party shall, through their Collaboration Manager, keep the JDMC fully informed about the status of the portions of the Development and Marketing Program it performs separately and/or jointly with the other Party by providing to their Collaboration Manager for submission to the JDMC a written report describing the progress of the separate and joint work done by it under the Development and Marketing Program in reasonable detail, at least fifteen (15) days prior to each quarterly meeting of the JDMC, and promptly upon the occurrence of any material event relevant to the Development and Marketing Program, including activities assigned to that Party.

3.13 **Diligence**. Each Party will exercise its commercially reasonable efforts and diligence (i) in Developing, Marketing, manufacturing and seeking Regulatory Approval in accordance with its business, legal, medical and scientific judgment, and in undertaking investigations and actions required to obtain appropriate Regulatory Approvals necessary to market Products in the Field in the Territory and (ii) to meet its obligations (including without limitation its financial obligations) hereunder. For purposes of this Section, such commercially reasonable efforts and diligence shall be in accordance with the efforts and resources a company having a comparable market capitalization (when taken together with its Affiliates) in the biotechnology and pharmaceutical industry would devote to a compound owned by it or to which it has rights, which is of similar market potential and at a similar stage in development as the applicable Product, taking into account the competitiveness of the marketplace, the proprietary position of the Product, the relative potential safety and efficacy of the Product, the regulatory requirements involved in its Development and Marketing, and the cost of goods and availability of capacity to manufacture and supply the Product at commercial scale.

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4. INFORMATION EXCHANGE

4.1 **Records.**

4.1.1 **Record Keeping**. Palatin and King shall each maintain records in sufficient detail and in accordance with Good Laboratory Practice, Good Clinical Practice and Good Manufacturing Practice, and as will properly reflect and document, in a manner appropriate for purposes of supporting the filing of potential patent applications and Regulatory Filings, all work done and results achieved in the performance of the Development and Marketing Program (including all data in the form required under any Applicable Law); provided however, prior to Completion of Phase II Clinical Trials, Palatin is responsible for maintaining master files in accordance with Good Clinical Practices, Good Laboratory Practices and Good Manufacturing Practices, to the extent applicable, and provided, further, if Palatin elects not to maintain such records upon Completion of Phase II Clinical Trials, Palatin shall transfer such records to King. Subject to Section 6.4.6 hereof, Palatin and King each hereby provides the other the right to inspect and copy such records to the extent reasonably required for the performance of its obligations or exercise of its rights under this Agreement, and neither Party shall use such records or information except to the extent otherwise permitted by this Agreement.

4.1.2 **Technical Reports**. Each Party shall keep the JDMC fully informed about the status of the Development and Marketing Program including, without limitation, furnishing the JDMC with copies of all reports which relate to the Development and Marketing Program. In particular, without limitation, each Party shall (a) provide periodic reports in reasonable detail to the JDMC as requested from time to time by the JDMC; (b) provide the other Party with access to all Technology and information employed in or arising out of the Development and Marketing Program solely for the purpose of conducting their respective roles hereunder; and (c) provide the other Party with information concerning the Development and Marketing Program as such other Party shall reasonably request.

4.1.3 **Information Exchange**. Subject to any confidentiality obligations to Third Parties, Palatin and King shall cooperate in the performance of the Collaboration, including in the performance of the Development and Marketing Program, and shall exchange information and materials (including without limitation financial statements) as

necessary to carry out the Collaboration, including to carry out the Development and Marketing Program. The Parties expect that such exchange of information and materials may involve short-term on-site visits by scientists of one Party to the facilities of the other Party. Such visits will have defined purposes, include a reasonable number of participants and be scheduled reasonably in advance.

4.2 **Updates; Adverse Event Information.**

4.2.1 **Updates and Reports**. Each Party shall keep the JDMC regularly informed of the progress of the Party's efforts to Develop and Market Products in the Field in the Territory and ROW through periodic progress reports related to the Program Plans as provided in this Section 4.2.1 by providing the JDMC with written updates to the Program Plans, as the case may be, no less frequently than each Calendar Quarter during the Term (commencing on the second Calendar Quarter during the Term) and promptly upon the occurrence of any material event relevant to the Development and Marketing Program, including activities assigned to that Party. Such updates shall (a) summarize the Party's efforts to Develop and Market all Products hereunder, (b) identify the Regulatory Filings with respect to any Product that have been filed, sought or obtained by the Party during the proceeding Calendar Quarter and any they reasonably expect to make, seek or attempt to obtain in the following twelve (12)-month period and (c) summarize all preclinical and clinical data generated by the Party with respect to Products. In addition, the Party (or its Sublicensees) shall provide the JDMC with prompt written notice of the occurrence of any event giving rise to an obligation to make a milestone payment to Palatin under Section 6.3, and shall provide the JDMC with prompt written notice of the occurrence of the First Commercial Sale of any Product. Thereafter, all updates shall include updates as to the sales and Marketing efforts for Products.

4.2.2 **Adverse Event Reports**. In addition to the updates described in Section 4.2.1 above, each Party shall provide the JDMC with all Adverse Event information and product complaint information relating to Products as compiled and prepared in the normal course of business in connection with the Development, Marketing or sale of any Product, within time frames consistent with reporting obligations under Applicable Law.

4.2.3 **Confidential Information**. Except as otherwise required in connection with disclosures to Regulatory Authorities required by Applicable Law, all reports, updates, Adverse Event or product complaint and other information provided by a Party under this Agreement (including under this Section 4.2.3), shall be considered Confidential Information of both Parties, regardless of who provided the same, and shall be subject to the terms of Section 10.

5. **COPROMOTION; [INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24B-2.]; AND CERTAIN OTHER PROVISIONS**

5.1 **Exercise of Option.** Provided the JDMC approves the Marketing of Products to the urology specialty, Palatin shall have the option (the "Copromotion Option"), but not the obligation, to Copromote each Product in the Territory. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** If Palatin duly exercises its Copromotion Option with respect to any Product, the Marketing Plan with respect to such Product shall be updated to reflect the same. All reasonable marketing costs and expenses of Palatin and King related to the copromotion pursuant hereto shall be Marketing Costs. Palatin shall keep the JDMC informed as to its Copromotion efforts in order to permit the JDMC to coordinate and direct the sales and marketing activities of each of the Parties in the Territory.

Palatin shall have no right to market, offer for sale, sell or distribute any Product in the Territory, unless and until Palatin has duly exercised its Copromotion Option. Within one hundred eighty days of the Effective Date, the Marketing Committee shall prepare and submit to the JDMC for approval a copromotion schedule, to be attached hereto as an amendment to the Marketing Plan, which will set forth the size of Palatin's permitted sales force in the event Palatin exercises its Copromotion Option (which, if King deploys a sales force in connection with the

Copromotion, shall in no event be greater than twenty percent (20%) of the total urology sales force of King and Palatin combined) along with such other specifics concerning Palatin's copromotion rights as the Marketing Committee determines are appropriate.

5.2 **Copromotion Rights**. If Palatin elects to Copromote a Product as permitted in Section 5.1, Palatin shall ensure that such Copromotion is executed, in all material respects, in a manner consistent with the decisions of the JDMC and the Marketing Plan, as amended pursuant to the copromotion schedule identified in Section 5.1.

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

5.4 **Product Liability Costs.** The Parties understand and agree that, because of the nature of the collaborative effort set forth in this Agreement, should any Third Party claims be asserted against either Party or both Parties or any of their Affiliates, agents or representatives that are in the nature of product liability claims, the Parties will cooperate through the JDMC to ensure that such claims are defended and settled or compromised in a manner that best protects the interests of the Parties in accordance with Section 2.8. In addition, the Parties will procure and maintain product liability insurance with first-class carriers in coverages and amounts and with deductibles not less than those as determined by the JDMC and, in any event, sufficient to cover the Parties' respective indemnification obligations hereunder. All costs incurred by a Party in connection with a product liability claim after the date hereof, including costs for insurance coverage required by the JDMC, shall be deemed Collaboration Costs,except to the extent that such costs are indemnifiable pursuant to or payable by a Party pursuant to Section 13 or attributable to products of a Party other than a Product.

5.5 **Change of Control.**

5.5.1 In the event of a Change of Control of a Party (the "Target Party") (i) in which a Party shall not be the surviving entity in the event of a merger, the proposed surviving entity (the "Surviving Entity"), (ii) in which there is an acquisition, lease, exchange or other transfer of all or substantially all of the assets of a Party, or in which there is an acquisition of the rights hereunder upon a liquidation or dissolution of a Party, in each case, the acquiror, or (iii) in which there is a permitted assignment pursuant to Section 15.10, the assignee, shall, prior to such Change of Control, agree in writing to assume all of the existing and future obligations, rights, title and interest of every nature in, to and under this Agreement of the Party in which it is entering into such Change of Control transaction; provided, however, that if the Surviving Entity, the acquiror or the assignee, as the case may be, does not assume the same in writing prior to such Change of Control, this Agreement shall be deemed to have been materially breached just prior to the consummation of the Change of Control by the Target Party.

5.5.2 In the event that a Change of Control is contingent upon or results in the Target Party or Surviving Entity being required by a court, governmental authority or a regulatory authority to sell or otherwise dispose or divest itself of its assets, rights or obligations relating to the Collaboration or this Agreement (the "Assets"), the Target Party shall provide written notice of the proposed divestiture to the other Party (the "Non-Target Party") promptly following the Target Party's receipt from such court, government authority or Regulatory Authority of all details with respect to such disposition or divestiture. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** If the Non-Target Party does not make a written offer, then the Target Party may sell the Assets without any further obligations under this Section 5.5.2. If the Non-Target Party makes a written offer **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** the Target Party may accept such offer or solicit bona fide written offers from Third Parties; **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**. In the event the Target Party receives a bona fide written offer from a Third Party, then the Non-Target Party shall have the right to match any bona fide written offer of such Third Party to purchase the Assets **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** following the Non-Target Party's receipt of written notice from the Target Party identifying all relevant details of such Third Party offer.

6. **CLOSING, INITIAL PAYMENTS, COLLABORATION COST AND COLLABORATION REVENUE SHARING**

6.1 **Closing.**

6.1.1 **Covenants Pending Closing.**

(a) Reasonable Efforts. Subject to the terms and conditions of this Agreement, each of the Parties agrees to use all reasonable efforts to take, or cause to be taken, all reasonable actions and to do, or cause to be done, all things necessary and appropriate to satisfy all conditions of and to consummate the transactions contemplated by this Agreement, including the satisfaction of the applicable conditions set forth in Section 6.1.2 below and the Closing.

(b) Filings. The Parties shall cooperate with one another in the preparation, execution and filing of all documents that are required or permitted to be filed on or before the Closing, including, without limitation, filings pursuant to the HSR Act and will promptly file the same after the Effective Date. The related filing fees incurred by each Party shall be paid by King.

6.1.2 **Closing**. As promptly as practicable after the Effective Date and after the satisfaction by each Party or, if permissible, waiver of the conditions set forth in Sections 6.1.3(a) and (b), the parties hereto shall cause the Closing to occur on the Closing Date. The Closing shall be held at the offices of Mintz Levin Cohn Ferris Glovsky and Popeo PC, The Chrysler Center, 666 Third Avenue, New York, New York 10017, or such other place as the parties shall agree, for the purpose of confirming the satisfaction or waiver, as the case may be, of the conditions set forth in Sections 6.1.3(a) and (b).

6.1.3 Conditions to Closing.

(a) The obligation of Palatin to close shall be subject to the satisfaction on or before the Closing Date of the following conditions, any or all of which may be waived in whole or in part by Palatin:

(i) the expiration or termination of all applicable waiting periods under the HSR Act, unless a joint determination is made by Palatin and King (by certification from Palatin and King to each other) that notification under the HSR Act is not required;

(ii) the representations and warranties made by King in Article 12 shall be true and correct in all material respects as of the Effective Date and as of the Closing Date with the same force and effect as if they had been made as of the Closing Date, and King shall have performed all obligations and conditions herein required to be performed or observed by it on or prior to Closing;

(iii) the provision by King to Palatin of an officer's certificate certifying that (i) and (ii) above are true and correct as of the Closing Date;

(iv) the payment to Palatin of the Collaboration License Fee, the Expense Payment and the Initial Share Payment by King; and

(v) the execution and delivery of the Securities Purchase Agreement by King.

(b) The obligation of King to close shall be subject to the satisfaction on or before the Closing Date of the following conditions any or all of which may be waived in whole or in part by King:

(i) the expiration or termination of all applicable waiting periods under the HSR Act, unless a joint determination is made by Palatin and King (by certification from Palatin and King to each other) that notification under the HSR Act is not required;

(ii) the representations and warranties made by Palatin in Article 12 shall be true and correct in all material respects as of the Effective Date and as of the Closing Date with the same force and effect as if they had been made as of the Closing Date, and Palatin shall have performed all obligations and conditions herein required to be performed or observed by it on or prior to Closing;

(iii) the provision by Palatin to King of an officer's certificate certifying that (i) and (ii) above are true and correct as of the Closing Date; and

(iv) the execution and delivery of the Securities Purchase Agreement and Warrant by Palatin.

6.2 **Initial Payments and Equity Purchase.**

6.2.1 **Collaboration License Fee**. Simultaneous with the Closing, King shall pay to Palatin a one-time, fully-earned, nonrefundable license fee in the amount of Ten Million Dollars ($10,000,000) (the "Collaboration License Fee"), **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**. The Collaboration License Fee shall be paid by King in U.S. Dollars by wire to an account designated by Palatin.

6.2.2 **Reimbursement of Expenses**. Simultaneous with the Closing, King shall pay to Palatin a one-time, fully-earned, nonrefundable payment for partial reimbursement of expenses attributable to preclinical, clinical development, and CMC costs for Product incurred by Palatin prior to the date hereof in the amount of Five Million Dollars ($5,000,000) (the "Expense Payment"). The Expense Payment shall be paid by King in U.S. Dollars by wire to an account designated by Palatin.

6.2.3 **Initial Purchase of Equity**. Simultaneous with the Closing, and in partial consideration of the preclinical, clinical, and CMC costs for Product incurred by Palatin prior to the date hereof and in consideration of the rights granted to King pursuant to Sections 2.9, 3.5, 3.6 and 3.7 and subject to the terms and conditions of the Securities Purchase Agreement dated the date hereof, King shall purchase from Palatin, and Palatin shall issue and sell to King, shares of Palatin's common stock par value $0.01 per share (the "Initial Shares") for an aggregate purchase price of Five Million Dollars ($5,000,000) (the "Initial Share Payment") in accordance with the terms and conditions of the Securities Purchase Agreement.

6.2.4 **Issuance of Warrant**. In partial consideration of the Initial Share Payment and the first equity purchase ED Product milestone indicated below, Palatin agrees to issue to King, pursuant to the terms of the Securities Purchase Agreement, warrants to purchase Palatin common stock in the form set forth in Exhibit I hereto.

6.3 Milestone Payments.

6.3.1 **Development Milestones**. King will make the following nonrefundable, noncreditable payments to and purchases of equity from Palatin within ten (10) days after the determination of the first achievement of each of the milestones set forth below. Each of the following milestone payments shall only be payable once.

	ED PRODUCT		FSD PRODUCT		
Milestone	Cash	Equity	Cash	Equity	Total
[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]
[*]	[*]	[*]	[*]	[*]	[*]

[*]	[*]	[*]	[*]	[*]	[*]
Total Development Milestones	[*]	[*]	[*]	[*]	$100 Million

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

6.3.2 **Development Milestone Equity Purchases.** All equity purchases to be made by King in connection with the development milestones set forth in Section 6.3.1 above, shall be made pursuant to the terms of the Securities Purchase Agreement; **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

6.3.3 **Sales Milestones.** King will make the following nonrefundable, noncreditable payments to Palatin within ten (10) days after the determination of the first achievement of each of the milestones set forth below. Each of the following milestone payments shall only be payable once. In the event that more than one milestone is reached in any given Calendar Year, each such milestone shall be due and payable.

Total Net Sales in a Single Calendar Year for all Products in the Territory	Total Cash Payment for Such Calendar Year
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
[*]	[*]
Total Sales Milestones	$130 Million

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

6.3.4 Determination That Payments Are Due.

(a) The Party having control or oversight over achievement of a particular milestone shall provide the JDMC with prompt written notice upon its achievement of each of the milestones set forth above. In the event that, notwithstanding the fact that such Party has not given any such notice, the other Party believes any such milestone payment is due, it shall so notify such Party and the JDMC in writing, and shall provide to such Party and the JDMC the data and information demonstrating that the conditions for payment have been achieved. Within ten (10) days of its receipt of such notice, the JDMC shall review the data and information and shall certify in writing whether or not the conditions for payment have been achieved. Any negative determination shall be accompanied by a detailed explanation of the reasons therefor. If the JDMC does not take action within such ten (10) day period (or such other period as the Parties shall mutually agree to be reasonable), the conditions for payment shall be deemed to have been achieved (unless the JDMC did not take action because a Party did not participate in meetings of the JDMC). King shall have the right to dispute in good faith the obligation to make a milestone payment pursuant to this Section 6.3.

(b) Notwithstanding anything to the contrary contained herein, any dispute under this Section that relates to whether or not a milestone has been achieved shall not be subject to final determination of either Party but shall be resolved pursuant to Section 2.10.

6.4 Collaboration Costs and Collaboration Revenue.

6.4.1 **Allocation**. All Collaboration Costs incurred and Collaboration Revenue received by a Party on and after the Effective Date shall be allocated between the Parties according to the percentages set forth below. For the avoidance of doubt, (i) a single percentage allocation shall ultimately be applied to all Collaboration Costs incurred and all Collaboration Revenues received in a given Calendar Year, based on an end-of-year determination of aggregate Collaboration Revenues for such Calendar Year, **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

COLLABORATION COSTS AND COLLABORATION REVENUE ALLOCATION

Region	Aggregate Collaboration Revenue in a Calendar Year Reaches Up to, but Does Not Exceed, [*] in Region	Aggregate Collaboration Revenue in a Calendar Year Exceeds [*] in Region
Territory	[*]	[*]
	[*]	[*]
ROW	[*]	[*]
	[*]	[*]

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

6.4.2 **Determination and Allocation of Collaboration Costs**. Within ten (10) days following the end of each Calendar Quarter, Palatin and King shall submit to the Accounting and Finance Committee an accounting of all Collaboration Costs incurred by it with respect to all Products and the Collaboration, allocated between the Territory and ROW, in the relevant time period. Within ten (10) days thereafter, the Accounting and Finance Committee shall produce a report setting forth the calculation of Collaboration Costs and its allocation between the Parties in accordance with Section 6.4.1 above, **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

6.4.3 **Determination and Allocation of Collaboration Revenue**. Within ten (10) days following the end of each Calendar Quarter commencing on and after the date of First Commercial Sale of each Product or the date on which a Party received Collaboration Revenue, Palatin and King shall submit to the Accounting and Finance Committee an accounting of all Collaboration Revenue received by it with respect to all Products and the Collaboration, allocated between the Territory and ROW. Within ten (10) days thereafter, the Accounting and Finance Committee shall produce a report setting forth the calculation of Collaboration Revenue and its allocation between the Parties in accordance with Section 6.4.1. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

6.4.4 **Advance Payments and Offset**. Each of the Parties shall fund projected Collaboration Costs on a monthly, prospective basis, such that all anticipated Collaboration Costs identified in the Accounting and Finance Plan for a

given month, or that are otherwise determined by the Accounting and Finance Committee to be reasonably likely to be incurred in such month, shall be allocated between the Parties according to the appropriate percentage set forth in Section 6.4.1, as determined by the Accounting and Finance Committee by reference to anticipated Collaboration Revenues for the relevant Calendar Year. At the end of each Calendar Quarter, the Parties shall reconcile their respective funding payments pursuant to Section 6.4.2 hereof, and, at the discretion of the Party who has funded an amount greater than the Collaboration Costs allocable to such Party for the relevant Calendar Quarter shall be reimbursed by the other Party within ten (10) days after the end of such Calendar Quarter or, at its discretion, shall receive a credit against Collaboration Costs payable by that Party in the subsequent Calendar Quarter(s), which credit amount shall be carried forward until fully credited.

6.4.5 **Currency Conversion**. All Collaboration Costs incurred and Collaboration Revenue received in currencies other than U.S. Dollars shall be converted to U.S. Dollars using the method agreed by the Parties and set forth in the Accounting and Finance Plan.

6.4.6 **Records**. Each Party shall maintain, for three (3) years from the date of each quarterly reconciliation of Collaboration Costs, complete and accurate records of the same for a Party, its Affiliates and Sublicensees, in sufficient detail to allow calculation and verification of Collaboration Costs and Collaboration Revenue. Each Party shall have the right for a period of three (3) years after receiving any report or statement with respect to Collaboration Costs or Collaboration Revenue to appoint at its expense an independent certified public accountant reasonably acceptable to the other Party to inspect the relevant records of such other Party and its Affiliates and Sublicensees to verify such report or statement. Such other Party, its Affiliates and Sublicensees shall each make its records available for inspection by such independent certified public accountant (who agree to confidentiality provisions consistent with Article 10) during regular business hours at such place or places where such records are customarily kept, upon reasonable notice from the auditing Party, solely to verify the accuracy of the reports and payments. Such inspection right shall not be exercised more than once in any Calendar Year and not more than once with respect to sales of any Product in any given period. Palatin agrees to hold in strict confidence all information concerning such payments and reports, and all information learned in the course of any audit or inspection, except to the extent necessary for Palatin to reveal such information in order to enforce its rights under this Agreement or if disclosure is required by law. The results of each inspection, if any, shall be binding on both Parties. In the event that any such inspection shall conclude that Collaboration Costs were overstated or Collaboration Revenue underreported by up to three percent (3%) in any given Calendar Year,

the inspected Party shall pay for one-half of the reasonable costs of the inspecting Party incurred in respect of the inspection, as well as make any payments required to remedy the overstatement or underreporting. In the event that any such inspection shall conclude that Collaboration Costs were overstated or Collaboration Revenue underreported by more than three percent (3%) in any give Calendar Year, the inspected Party shall pay for all the reasonable costs of the inspecting Party incurred in respect of the inspection, as well as make any payments required to remedy the overstatement or underreporting. Any dispute regarding the results of any such inspection hereunder shall be subject to the dispute resolution provisions of Section 2.10 hereof, provided that if the non-paying party is the party with final decision-making authority over the subject matter in dispute, and the CEO's are unable to reach agreement even after good faith discussions in accordance with Section 2.10, then the dispute shall not be subject to the sole discretion of either party.

6.4.7 **Overdue Payments**. All overdue payments, not subject to a bona fide dispute, due and payable pursuant to this Agreement shall bear interest at a rate of one percent (1%) per month from the due date until paid in full.

6.4.8 **Withholding Taxes**. All payments made by a Party hereunder shall be made to the other Party free and clear of any taxes, duties, levies, fees or charges, except for withholding taxes (to the extent applicable). The Party making the withholding payment shall make any applicable withholding payments due on behalf of other Party and shall promptly provide the other Party with written documentation of any such payment sufficient to satisfy the requirements of the United States Internal Revenue Service relating to an application by such other Party for a foreign tax credit for such payment. If by law, regulations or fiscal policy of a particular country in the Territory, remittance of Collaboration Revenue payments in United States Dollars is restricted or forbidden, written notice thereof shall promptly be given by the selling Party to the other Party, and such payment shall be made by the

deposit thereof in local currency to the credit of such other Party in a recognized banking institution designated by the other Party. When in any country in the Territory the law or regulations prohibit both the transmittal and the deposit of Collaboration Revenue payments, such payments shall be suspended for as long as such prohibition is in effect and as soon as such prohibition ceases to be in effect, all Collaboration Revenue payments that the selling Party would have been under an obligation to transmit or deposit but for the prohibition shall forthwith be deposited or transmitted, to the extent allowable.

7. LICENSES AND CT LICENSE AGREEMENT

7.1 **License to King**. Subject to the terms and conditions of this Agreement, beginning on the Closing Date and thereafter during the Term, Palatin hereby grants to King a co-exclusive (with Palatin only) license, limited to the Field, with the right to grant sublicenses only as explicitly permitted hereunder in furtherance of the Collaboration, under Palatin Technology and Palatin Patent Rights and under Palatin's ownership interest in Joint Technology and Joint Patent Rights, to develop, have developed, make, have made, use, sell, distribute for sale, have distributed for sale, offer for sale, have sold, import and have imported Products in the Territory, which license shall be exercisable by King only as part of the Collaboration and for the conduct of the activities required in the performance of its obligations or exercise of its rights hereunder.

7.2 **License to Palatin**. Subject to the terms and conditions of this Agreement, beginning on the Closing Date and thereafter during the Term, King hereby grants to Palatin a co-exclusive (with King only) license, limited to the Field, with the right to grant sublicenses only as explicitly permitted hereunder in furtherance of the Collaboration, under King Technology and King Patent Rights and under King's ownership interest in Joint Technology and Joint Patent Rights to develop, have developed, make, have made, use, sell, distribute for sale, have distributed for sale, offer for sale, have sold, import and have imported Products in the Territory. The foregoing license to Palatin shall be exercisable by Palatin only as part of the Collaboration and for the conduct of the activities required in the performance of its obligations or exercise of its rights hereunder. For the avoidance of doubt, Palatin shall have no right to sell, distribute for sale, have distributed for sale, offer for sale, or have sold Products in the Territory except and to the extent (a) permitted in the Marketing Plans or otherwise expressly first agreed to by King in writing or (b) set forth in Section 5.1 hereof.

7.3 **Right to Develop and Market in ROW**. Subject to the terms and conditions of this Agreement, beginning on the Closing Date and thereafter during the Term of this Agreement, Palatin hereby grants to King the exclusive right, and King agrees, to collaborate equally with Palatin (including the sharing of Collaboration Costs and Collaboration Revenues relating to the same as set forth in Section 6.4 and decision making as set forth herein) in licensing or sublicensing to or collaboration with one or more Third Parties with respect to the right to Develop and Market Products in the ROW. Neither Palatin nor King shall have the right to grant, or shall grant, any rights to any Palatin Technology, King Technology, Palatin Patent Rights, King Patent Rights, Joint Technology or Joint Patent Rights to any third party in the ROW without the consent and participation of the other Party, except as set forth in Section 3.11 hereof.

7.4 **Fulfillment and Observance of Certain Obligations**. In furtherance of the grant of rights set forth in Section 7.1, Palatin acknowledges that it is responsible for the fulfillment of its obligations under the CT License Agreement and agrees to use its commercially reasonable efforts to fulfill same, and King hereby agrees to abide by the provisions of the CT License Agreement and not to knowingly cause Palatin to be in breach of or under the same. Palatin shall not amend, terminate or cause to be terminated the CT License Agreement, if such amendment or termination would alter the rights of the parties to the CT License Agreement in such a way as to alter the rights of King under this Agreement (it being expressly understood and agreed that any modification to any of the financial provisions of the CT License Agreement shall be deemed to alter the rights of King under this Agreement), or exercise or fail to exercise any of Palatin's material rights or obligations under the CT License Agreement, in each case without the prior written consent of King, not to be unreasonably withheld.

7.5 **No Other Rights**. King shall receive no rights to utilize Palatin Technology, Palatin Patent Rights, or Palatin Proprietary Materials except as expressly set forth herein. Palatin shall receive no rights to utilize King

Technology, King Patent Rights or King Proprietary Materials except as expressly set forth herein. Notwithstanding their joint ownership interest in Joint Technology and Joint Patent Rights, each Party hereby agrees that it shall have no right to use same except as expressly set forth herein.

7.6 **Limitation on Development and Marketing.** **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION**

UNDER RULE 24b-2.]

7.7 **Rights Outside the Field**. The co-exclusive rights of the Parties hereunder will extend to all indications outside the Field with respect to PT-141, including the use of PT-141 in combination with one or more other actives and in any formulation including, without limitation, in any delivery method. In the event King or Palatin make any invention or discovery with respect to PT-141 outside the Field, such new invention or discovery shall be part of the Collaboration and the rights of the Parties with respect thereto shall be subject to the terms and conditions hereof. Any activities of the Parties with respect to PT-141 outside the Field shall only be undertaken by the Parties pursuant to their mutual consent and pursuant to the framework established by the Collaboration and this Agreement. Neither Party shall have any right to, and neither Party shall, undertake any research, development, manufacture or commercialization of PT-141 outside the Field outside the Collaboration, either on its own or with any third party.

8. INTELLECTUAL PROPERTY RIGHTS

8.1 **Inventions Disclosure and Generally**. Each Party shall promptly provide the JDMC with written notice concerning all Technology that is conceived, made or developed in the course of carrying out the Development and Marketing Program by employees or Consultants of either of them or their Affiliates, alone or jointly with employees or Consultants of the other Party or its Affiliates. Such notice shall be treated as the Confidential Information of both parties hereunder. The provisions of this Section 8 shall apply to rights in the Technology conceived, made or developed by Palatin or King, or both, during the course of carrying out the Development and Marketing Program.

8.2 **Ownership**.

8.2.1 **Palatin Intellectual Property Rights**. Palatin shall have sole and exclusive ownership of all right, title and interest on a worldwide basis in and to any and all Palatin Technology and Palatin Patent Rights, with full rights to license or sublicense, subject to the obligations to King as set forth herein. Without limiting the foregoing, and except as expressly set forth in this Agreement, Palatin shall be the sole owner of all Patent Rights, all trade secret rights, all know-how and any other intellectual property rights in the Palatin Technology and Palatin Patent Rights, including the sole and exclusive right to exclude others from making, using, selling, offering for sale or importing the Palatin Technology and Palatin Patent Rights, or any products that infringe any Palatin Technology and Palatin Patent Rights.

8.2.2 **King Intellectual Property Rights**. King shall have sole and exclusive ownership of all right, title and interest on a worldwide basis in and to any and all King Technology and King Patent Rights, with full rights to license or sublicense, subject to the obligations to Palatin as set forth herein. Without limiting the foregoing, and except as expressly set forth in this Agreement, King shall be the sole owner of all Patent Rights, all trade secret rights, all know-how and any other intellectual property rights in the King Technology and King Patent Rights including the sole and exclusive right to exclude others from making, using, selling, offering for sale or importing the King Technology and King Patent Rights or any products that infringe any King Technology and King Patent Rights.

8.2.3 **Joint Technology Rights**. King and Palatin shall jointly own all Joint Technology and Joint Patent Rights, subject to the rights of, and the licenses granted to, each Party hereunder. The Parties hereby agree that as joint owners of such rights, each Party may use or license or sublicense to any Affiliate or Third Party all such rights for any or all purposes without restriction outside the Field; provided, that, each Party agrees, prior to using, licensing or sublicensing any such Joint Technology for commercial purposes, to first negotiate in good faith and agree with the other Party an appropriate royalty to be paid to such other Party in connection with such activities.

8.3 **Patent Coordinators**. Palatin and King shall each appoint a patent coordinator (each, a "Patent Coordinator" and, collectively, the "Patent Coordinators"), reasonably acceptable to the other Party, who shall serve as such Party's primary liaison with the other Party on matters relating to patent filing, prosecution, maintenance and enforcement. Each Party may replace its Patent Coordinator at any time by notice in writing to the other Party.

8.4 **Inventorship**. The JDMC, with the advice of the Patent Coordinators and, in the event of a dispute between the Parties, their legal counsel, shall determine the inventorship of any patent rights arising hereunder. Solely for purposes of this Agreement, and for determining inventorship and ownership of any Palatin Patent Rights, King Patent Rights and Joint Patent Rights and the rights and obligations of the Parties hereunder, the standards contained in United States patent law shall apply. For the avoidance of doubt, the inventorship set forth in any particular patent application or patent within the Palatin Patent Rights, King Patent Right or Joint Patent Right shall be made, as a legal matter, in accordance with the patent laws of the relevant jurisdiction. The JDMC, with the advice of the Patent Coordinators, shall also, in the case of dispute, make the determination as to whether an invention is King Technology, Palatin Technology or Joint Technology. All such determinations shall be treated as Joint Decisions hereunder. If the JDMC cannot resolve the dispute, it shall be resolved by independent patent counsel, not otherwise engaged by either of the Parties, selected by the Patent Coordinators. The reasonable expenses of such independent patent counsel shall be Collaborating Costs.

9. FILING, PROSECUTION AND MAINTENANCE OF PATENT RIGHTS

9.1 **Patent Filing, Prosecution and Maintenance**.

9.1.1 **Patent Filing**. During the Term of this Agreement, with respect to any Patent Rights arising hereunder:

(a) Palatin, acting through patent attorneys or agents of its choice, shall be responsible for the preparation, filing, prosecution and maintenance of all patents and patent applications claiming the Palatin Patent Rights. At Palatin's request, King shall reasonably cooperate with and assist Palatin in connection with such activities.

(b) King, acting through patent attorneys or agents of its choice, shall be responsible for the preparation, filing, prosecution and maintenance of all patents and patent applications claiming the King Patent Rights. At King's request, Palatin shall reasonably cooperate with and assist King in connection with such activities.

(c) Except as expressly provided in Section 12, neither Party makes any warranty with respect to the validity, perfection or dominance of any patent or other proprietary right or with respect to the absence of rights in Third Parties which may be infringed by the manufacture or sale of any Product. Each Party agrees to bring to the attention of the JDMC any patent or patent application it discovers which relates to the rights of either Party under this Agreement.

(d) King and Palatin will cooperate through their respective Patent Coordinators to jointly select outside patent counsel to handle the filing, prosecution and maintenance of patents and patent applications comprising the Joint Patent Rights. The Parties shall share equally, through the JDMC, the control related to patents and patent applications claiming inventions that are Joint Technology. Should one Party desire not to share in the control, filing, prosecution or maintenance of any such patent or patent applications, the other Party shall gain sole control of the filing, prosecution or maintenance of such patents or patent applications, and such patents or patent applications shall be deemed to be the Palatin Program Technology or King Program Technology, as applicable, and such Party shall have the sole right to file, prosecute and maintain same, at its own expense.

(e) All reasonable fees and expenses of counsel and other reasonable costs and expenses of each Party attributable to the filing, prosecution and maintenance of Patent Rights or Technology used or reasonably expected, in the judgment of the JDMC to be used or useful in the Development and Marketing Program shall be deemed Regulatory and IP Costs.

9.1.2 **Information and Cooperation**. Each Party responsible for Patent Rights described in this Agreement (the "Filing Party") shall keep the JDMC regularly informed of the status of the Patent Rights for which it is responsible in accordance with this Section 9.1.2. The Filing Party shall provide the JDMC with (a) copies of all filings and correspondence with the patent offices, administrative boards or courts which the Filing Party sends or receives in connection with filing, prosecution, maintenance and defense of the Patent Rights for which it is responsible, and (b) copies of filings and correspondence under subsection (a) sufficiently in advance of the due date so as to give the other Party sufficient time to comment and shall give good faith consideration to the other Party's comments and incorporate same to the extent not inconsistent with the legal or commercial position of the Filing Party. The Filing Party shall carefully follow the advice and direction of the JDMC with respect to strategy for the Patent Rights for which it is responsible.

9.1.3 **Abandonment**. If a Filing Party decides to abandon or to allow to lapse any of its Patent Rights described in this Agreement, the Filing Party shall inform the other Party and the JDMC at least forty-five (45) days prior to the effective date of such decision, and the JDMC shall decide what actions should be taken with respect to such Patent Rights. If the JDMC has not reached a decision fifteen (15) days prior to such effective date, then the non-Filing Party shall have the right to take any actions it deems reasonably necessary and appropriate to prevent the abandonment or lapse of the relevant Patent Rights, in the Filing Party's name, in order to maintain the status quo. The Filing Party hereby authorizes the non-

Filing Party to make, constitute, and appoint any representative as such other Party may select, in its sole discretion, as the true and lawful attorney-in-fact for the Filing Party, with power to endorse the Filing Party's name on all applications, documents, papers, and instruments necessary or desirable for the non-Filing Party to give effect to the provisions of this Section 9.13 and the intent of the parties hereto. This power of attorney is coupled with an interest and is supported by the consideration set forth in this Agreement. The Filing Party hereby ratifies all that such attorney-in-fact may lawfully do or cause to be done by virtue hereof. This power of attorney is irrevocable until the earlier of the expiration of the last to expire of the Palatin Patent Rights, King Patent Rights and Joint Patent Rights or the termination of this Agreement. In rendering its determination, the JDMC shall decide how to respond to the activities of such non-Filing Party, what the rights of the Parties shall be with respect to the relevant Patent Rights, and how to allocate responsibility for any costs incurred in connection with same.

9.2 **Legal Action**.

9.2.1 Actual or Threatened Infringement.

(a) In the event either Party becomes aware of any possible infringement or unauthorized possession, knowledge or use of any Patent Right which is the subject matter of this Agreement, including any Joint Technology (collectively, an "Infringement"), that Party shall promptly notify the JDMC and other Party and provide it with full details (an "Infringement Notice"). The JDMC shall decide which actions are to be taken with respect to such matters, subject to the provisions of this Section 9.2. All reasonable costs and expenses expended by a Party in connection herewith and monies or other assets recovered by a Party pursuant hereto shall be deemed Collaboration Costs and Collaboration Revenue, as the case may be, to the extent the same are related to a Product.

(b) King shall have the first right and option, but not the obligation, to prosecute or prevent the Infringement of or relating to King Patent Rights. If King does not commence an action to prosecute, or otherwise take steps to prevent or terminate the Infringement within one hundred eighty (180) days from any Infringement Notice, expressly excluding any immaterial infringement, then Palatin shall have the right and option to take such action as Palatin will consider appropriate to prosecute or prevent such Infringement, but only if such Infringement is in the

Field and only with respect to any King Patent Rights that are actually then being used in the Development and Marketing Program or are, in the judgment of the JDMC, reasonably likely to be used or useful in the Development or Marketing of any Products hereunder. If either Party determines that it is necessary or desirable for the other to join any such suit, action or proceeding, the other Party shall, upon written notice from the prosecuting Party, execute all papers and perform such other acts as may be reasonably required in the circumstances.

(c) Palatin shall have the first right and option, but not obligation, to prosecute or prevent the Infringement of or relating to Palatin Patent Rights. If Palatin does not commence an action to prosecute, or otherwise take steps to prevent or terminate the Infringement within one hundred eighty (180) days from any Infringement Notice, expressly excluding any immaterial infringement, then King shall have the right and option to take such action as King will consider appropriate to prosecute or prevent such Infringement, but only if such Infringement is in the Field and only with respect to any Palatin Patent Rights that are actually then being used in the Development and Marketing Program or are, in the reasonable judgment of the JDMC, reasonably likely to be used or useful in the Development or Marketing of any Products hereunder. If either Party determines that it is necessary or desirable for the other to join any such suit, action or proceeding, the first Party shall, upon written notice from the prosecuting Party, execute all papers and perform such other acts as may be reasonably required in the circumstances.

(d) In the event of an Infringement of a Joint Patent Right, the JDMC shall determine whether and how to prosecute or prevent the Infringement.

(e) Each Party shall always have the right to be represented by counsel of its own selection in any suit instituted under this Section by the other Party for Infringement. If either Party lacks standing and the other Party has standing to bring any such suit, action or proceeding, then such other Party shall bring such suit at the request of the first Party. No suit under this Section 9.2.1 may be settled without the approval of the JDMC.

(f) In any action under this Section, the Parties shall fully cooperate with and assist each other.

(g) In the event that the scope of an action under this Section 9.2.1 goes beyond the scope of the Field in that any aspect of the Infringement is predicated on activities outside the Field, then the JDMC shall determine what percentage of all costs incurred and all damages awarded or royalties granted in connection with such action represent activity inside the Field, which shall be treated as Collaboration Costs and Collaboration Revenues. All other costs, damages and royalties shall be the responsibility of, and shall belong to, the Party who owns the Patent Rights in suit.

9.2.2 **Defense of Claims**.

(a) In the event that any action, suit or proceeding is brought against Palatin or King or any Affiliate or Sublicensee of either Party alleging the infringement of the Technology or intellectual property rights of a Third Party by reason of any Party's activities performed pursuant to this Agreement, the JDMC shall determine how the Parties will defend themselves in such action and, subject to Section 9.2.2(b) below. All costs related to the same shall be deemed Regulatory and IP Costs. Each Party shall have the right to separate counsel in any such action or proceeding. The Parties shall cooperate with each other in the defense of any such suit, action or proceeding. Subject to the foregoing, each Party shall have the option to assume control of the defense of any action, suit or proceeding which principally relates to the use of such Party's own Technology. The Parties will give each other prompt written notice of the commencement of any such suit, action or proceeding or claim of infringement and will furnish each other a copy of each communication relating to the alleged infringement. Neither Party shall compromise, litigate, settle or otherwise dispose of any such suit, action or proceeding which involves the use of the other's Technology or Patent Rights without the other Party's advice and prior consent, provided that the Party not defending the suit shall not unreasonably withhold its consent to any settlement which does not have a material adverse effect on its business or business prospects. If the defending Party agrees that the other Party should institute or join any suit, action or proceeding pursuant to this Section, the defending Party may join the other Party as a Party to the suit, action or proceeding, and the Party so joined shall execute all documents and take all other actions, including giving testimony, which may reasonably be required in connection with the

prosecution of such suit, action or proceeding.

(b) If as a consequence of such action, suit or proceeding by a Third Party claiming that the discovery, development, manufacture, use or sale of a Product infringes such Third Party's intellectual property rights, the Parties shall examine and discuss in good faith the consequences of such prohibition or restriction or other conditions on this Agreement and on possible modifications thereto.

9.3 **Trademark Prosecution**. The JDMC will decide which Party shall be responsible (using mutually acceptable outside counsel) for the filing, prosecution, defense and maintenance before all trademark offices of the Product Trademarks and all related and reasonable costs and expenses shall be deemed Regulatory and IP Costs.

10. TREATMENT OF CONFIDENTIAL INFORMATION; PUBLICITY; NON-SOLICITATION.

10.1 **Confidentiality**.

10.1.1 **Confidentiality Obligations**. Palatin and King each acknowledges and agrees that the other Party's Confidential Information constitutes highly valuable and proprietary confidential information and materials. Palatin and King each agrees that during the Term of the Collaboration and for an additional five (5) years (or, in the case of any Confidential Information identified as a trade secret by the Disclosing Party at the time of disclosure, for so long as such trade secret Confidential Information is susceptible of remaining a trade secret), it will use commercially reasonable efforts to keep confidential, and will use commercially reasonable efforts to cause its employees, Consultants, Affiliates, agents, advisors and Sublicensees to keep confidential, all Confidential Information and Proprietary Materials of the other Party. Neither Palatin nor King nor any of their respective employees, Consultants, Affiliates or Sublicensees shall use Confidential Information or Proprietary Materials of the other Party for any purpose whatsoever except as expressly permitted in this Agreement.

10.1.2 **Limited Disclosure**. Palatin and King each agree that any disclosure of the other Party's Confidential Information or any transfer of the other Party's Proprietary Materials to any officer, employee, Consultant, agent or Affiliate of Palatin or King, as the case may be, shall be made only if and to the extent necessary to carry out its rights and responsibilities under this Agreement, shall be limited to the maximum extent possible consistent with such rights and responsibilities, and shall only be made to persons who are bound by written confidentiality obligations to maintain the confidentiality thereof and not to use such Confidential Information or Proprietary Materials except as expressly permitted by this Agreement. Palatin and King each further agree not to disclose or transfer the other Party's Confidential Information or Proprietary Materials to any Third Parties under any circumstance without the prior written approval from the other Party (such approval not to be unreasonably withheld), except as otherwise required by law, and except as otherwise expressly permitted by

this Agreement. Each Party shall take such action, and shall cause its Affiliates and Sublicensees to take such action, to preserve the confidentiality of each other's Confidential Information and Proprietary Materials as it would customarily take to preserve the confidentiality of its own Confidential Information and Proprietary Materials, using a level of care that shall not under any circumstances be less than reasonable and prudent care. If a court or other government authority orders that the Receiving Party disclose Confidential Information, or proposes such an order, the receiving party must notify the Disclosing Party immediately after learning of the order, so as to provide the Disclosing Party an opportunity to protect the information, and the Receiving Party must limit the disclosure to the minimum that will comply with the order. Each Party, upon the request of the other Party, will return all the Proprietary Information and Confidential Materials disclosed or transferred to it by the other Party pursuant to this Agreement, including all copies and extracts of documents and all manifestations in whatever form, within sixty (60) days of the request or, if earlier, the termination or expiration of this Agreement; provided however, that a Party may retain Confidential Information and Proprietary Materials of the other Party relating to any license or

right to use Technology which survives such termination and one copy of all other Confidential Information may be retained in inactive archives solely for the purpose of establishing the contents thereof.

10.1.3 **Employees and Consultants**. Palatin and King each hereby agrees that all of its employees, and all of the employees of its Affiliates, and any Consultants to such Party or its Affiliates, in any case that participate in the activities of the Collaboration and who shall have access to Confidential Information or Proprietary Materials of the other Party shall be bound by written obligations to maintain the same in confidence and not to use such information except as expressly permitted herein. Each Party agrees to enforce confidentiality obligations to which its employees and Consultants (and those of its Affiliates) are obligated.

10.1.4 **Equitable Relief.** Each Party acknowledges that a breach by it of the provisions of this Article 10 and Section 7.6 cannot reasonably or adequately be compensated in damages in an action at law and that such a breach may cause the other Party irreparable injury and damage. By reason thereof, each Party agrees that the other Party may be entitled to seek, in addition to any other remedies it may have under this Agreement or otherwise, preliminary and permanent injunctive and other equitable relief to prevent or curtail any breach of this Article 10 by the other Party; provided, however, that no specification in this Agreement of a specific legal or equitable remedy shall be construed as a waiver or prohibition against the pursuing of other legal or equitable remedies in the event of such a breach. Each Party agrees that the existence of any claim, demand, or cause of action of it against the other Party, whether predicated upon this Agreement, or otherwise, shall not constitute a defense to the enforcement by the other Party, or its successors or assigns, of the covenants contained in this Article 10.

10.2 **Publicity**. Neither Party may publicly disclose the existence or terms of this Agreement without the prior written consent of the other Party; provided, however, that either Party may make such a disclosure (a) to the extent required by law or by the requirements of any nationally recognized securities exchange, quotation system or over-the-counter market on which such Party has its securities listed or traded or (b) to any investors, prospective investors, lenders and other potential financing sources who are obligated to keep such information confidential. In the event that such disclosure is required as aforesaid, the disclosing Party shall make reasonable efforts to provide the other Party with notice beforehand and to coordinate with the other Party with respect to the wording and timing of any such disclosure. The Parties, upon the execution of this Agreement, will mutually agree to a press release with respect to the Collaboration for publication. Once such press release or any other written statement is approved for disclosure by both Parties, either Party may make subsequent public disclosure of the contents of such statement without the further approval of the other Party.

10.3 **Publication**. It is expected that each Party may wish to publish the results of its research under this Agreement. In order to safeguard patent rights and other intellectual property, the Party wishing to publish or otherwise publicly disclose the results of any research being conducted by the Parties in the Collaboration shall first submit a draft of the proposed manuscript to the JDMC for review, comment and consideration of appropriate patent action at least sixty (60) days prior to any submission for publication or other public disclosure. Within thirty (30) days of receipt of the prepublication materials, the JDMC, with the advice of the Patent Coordinators and after consultation with the respective medical affairs or medical services departments or professionals of each Party, will notify the Party seeking publication as to whether a patent application shall be prepared and filed (in which case the Party seeking publication shall delay submission until the first to occur of the filing of a patent application and ninety (90) days from such notice provided by the JDMC) or whether such publication must be revised to eliminate Confidential Information of a Party (in which case the Party seeking publication shall delete from any proposed publication all such Confidential Information contained therein).

10.4 **Prohibition on Solicitation**. Without the written consent of the other Party, neither Party nor its Affiliates shall, during the Term of this Agreement or for a period of one (1) year following the expiration or termination of this Agreement, solicit (directly or indirectly) any person who was employed by such Party or its Affiliates and participated in the Development and Marketing Program at any time during the Term of this Agreement. This provision shall not restrict either Party or its Affiliates from advertising employment opportunities in any manner that does not directly target the other Party or its Affiliates.

11. TERM AND TERMINATION

11.1 **Term**. This Agreement shall commence on the Effective Date and shall continue for so long as any Product is being Developed or Marketed, or, if later, the expiration of the last Patent Right licensed or developed hereunder, unless earlier terminated in accordance with the provisions of this Section 11 (the "Term").

11.2 **Termination**. This Agreement may be terminated as follows, in each case in the Territory, in the ROW, or in both (in each case, the **"**Terminated Region**"**). Termination in the Terminated Region, under any provision of this Section 11.2, shall not impact the rights and obligations of the Parties outside the Terminated Region, and this Agreement shall be deemed amended, *mutatis mutandis*, to exclude the Terminated Region. **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]**

11.2.1 **Mutual Termination**. The Parties may agree in writing to mutually terminate this Agreement at any time. If a Party has given notice of termination of this Agreement pursuant to Sections 11.2.2 or 11.2.3 hereof, the other Party may not invoke this Section 11.2.1 by agreeing to such termination. In the event of termination pursuant to this Section 11.2.1 the Parties shall negotiate in good faith within thirty (30) days after the date of such termination the terms and conditions of such termination. Such terms shall include that each Party will make its personnel and other resources reasonably available to the other Party as necessary to effect an orderly transition of responsibilities. In addition, the Parties shall make reconciling payments due and payable for the Final Calendar Year as required by Sections 6.3 and 6.4, as well as pay any other amounts due and owing on the date of termination.

11.2.2 **Termination At Will**. Either Party may terminate this Agreement in the Territory and ROW (together, but not in one or the other) at any time, at will, (x) upon ninety (90) days prior written notice to the other Party if such termination occurs prior to the Completion of Phase II Clinical Trials and (y) upon one-hundred and eighty (180) days prior written notice to the other Party if such termination occurs on or after the Completion of Phase II Clinical Trials. In connection with a termination pursuant to this Section 11.2.2, the following shall apply:

(a) The terminating Party shall, at its own expense, execute and deliver to the other Party such documents, material, data, records, analyses and information and do such things as reasonably requested by the other Party in order to permit the other Party to Develop and Market Products in the Terminated Regions in the Field including the following, in each case only to the extent reasonably necessary or relevant to such Development and Marketing in the Terminated Regions in the Field: (i) the terminating Party shall use its commercially reasonable efforts to effect a smooth and orderly transition of any ongoing clinical studies, regulatory approval or pre-marketing efforts to the other Party (including all data and reports in the possession of the terminating Party), including without limitation the assignment of any relevant third party contracts and Regulatory Filings and the use of commercially reasonable efforts to cancel all cancelable costs already incurred and mitigate all other costs incurred in connection with the Development and Marketing Program; (ii) the terminating Party shall make its personnel and other resources reasonably available to the other Party as necessary to effect an orderly transition of development responsibilities, with the reasonable cost of such personnel and resources to be borne by the terminating Party after the effective date of termination; (iii) the terminating Party, for no additional consideration, shall pay its share of the costs for the completion of any of the ongoing clinical trials of Product, but only for such costs directly incurred for those patients already enrolled in the study at the time of giving the termination notice; (iv) all rights and licenses granted herein to the terminating Party in the Terminated Regions in the Field shall, for no additional consideration, immediately terminate with respect to the terminating Party, and thereafter, the non-terminating Party shall have the sole and exclusive right and license (exclusive even as to the terminating Party) to make, have made, use, sell, offer for sale and import Product in the Terminated Regions in the Field under the Palatin Technology, the Palatin Patent Rights, the King Technology and King Patent Rights and an exclusive right and license under the Joint Patent Rights and Joint Technology to make, have made, use, sell, offer for sale and import Product in the Terminated Regions in the Field; and (v) the terminating Party shall, within ten (10) days after the termination date, provide and assign to the other Party, at the terminating Party's expense, all clinical data, INDs, NDAs, Regulatory Approvals, Regulatory Filings and all other documentation reasonably useful in respect of Products in the Terminated Regions in the Field.

(b) In connection with any termination by Palatin pursuant to this Section 11.2.2, Palatin will use its commercially reasonable efforts to assign or transfer to King Palatin's rights and benefits under the CT License Agreement (or otherwise provide to King the benefit of the same if assignment or transfer is not possible after using its commercially reasonable efforts) to the extent reasonably necessary for King to Develop and Market Product in the Terminated Regions in the Field, and King agrees to thereafter assume all subsequent responsibilities, liabilities, obligations (financial and otherwise) related thereto as of the relevant termination date, including any relating to a breach by King of the CT License Agreement, it being understood and agreed that King shall not be liable for, and Palatin shall remain liable for, any and all responsibilities, liabilities, breaches and obligations attributable to periods or accruing prior to or on such termination date. Should King not agree to assume such subsequent responsibilities, Palatin shall have no obligation to assign or transfer to King any of its rights or benefits under the CT License Agreement (or otherwise offer to King the benefit of the same if assignment or transfer is not possible after using its commercially reasonable efforts).

(c) The Parties shall make reconciling payments due and payable for the Final Calendar Year as required by Sections 6.3 and 6.4, as well as pay any other amounts due and owing on the date of termination.

(d) If the Party that is not proceeding with Development and Marketing of Products pursuant to this Section is responsible for supplying CTM, API, or Product for Development or Marketing (the "Manufacturing Party"), the Manufacturing Party shall agree to supply to the other Party (the "Developing Party"), at the Developing Party's election, all its requirements of such CTM, API or Product (the "Supply") at **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** as is reasonably required by the Developing Party in order to Develop and Market Product for the shorter of (i) eighteen (18) months or (ii) as long as is reasonably required by the Developing Party to obtain Supply from a Third Party supplier or to manufacture such Supply on its own.

11.2.3 **Termination for Material Breach**. In the event that either Party breaches any material term of this Agreement that applies to it, the other Party shall have the right to terminate this Agreement in the Territory and ROW (together, but not in one or the other) (x) by giving thirty (30) days' prior written notice to the breaching Party in the case of a breach of any payment term of this Agreement and (y) by giving ninety (90) days' prior written notice to the breaching Party in the case of any other breach; provided, however, that in the case of a breach capable of being cured, if the breaching Party shall cure the breach within such notice period after notice shall have been given, then such notice shall not be effective. For purposes of this Section 11.2.3, (i) the failure to timely make any payment or fulfill any funding obligation under this Agreement that is not subject to a bona fide dispute, (ii) the failure, after use of commercially reasonable efforts, to timely supply API or finished Product in the quantities required, and (iii) the commission of any act or the occurrence of any omission, in each case that constitutes a breach of any material term of this Agreement and that has a material adverse impact, or is reasonably likely, in the judgment of the JDMC, to have a material adverse impact, on the ability of the Parties to timely Develop or Market a Product that conforms with the Program Plans shall each constitute a material breach of this Agreement (but the list set forth in clauses (i) through (iii) shall not be deemed an exhaustive list of material breaches of this Agreement). In the event of a termination pursuant to this Section 11.2.3, the following shall apply:

(a) The breaching Party shall, at its own expense, execute and deliver to the nonbreaching Party such documents, material, data, records, analyses and information and do such things as reasonably requested by the nonbreaching Party in order to permit the nonbreaching Party to Develop and Market of Product in the Terminated Regions in the Field, including the following, in each case only to the extent reasonably necessary or relevant to such Development and Marketing in the Terminated Regions in the Field: (i) the breaching Party shall use its commercially reasonable efforts to effect a smooth and orderly transition of any ongoing clinical studies, regulatory approval or pre-marketing efforts to the nonbreaching Party (including all data and reports in the

possession of the breaching Party), including without limitation the assignment of any relevant third party contracts and Regulatory Filings; (ii) the breaching Party shall make its personnel and other resources reasonably available to the nonbreaching Party as necessary to effect an orderly transition of development responsibilities, with the reasonable cost of such personnel and resources to be borne by the breaching Party after the effective date of termination; (iii) the breaching Party, for no additional consideration, shall pay its share of the costs for the completion of any of the ongoing clinical trials of Product, but only for such costs directly incurred for those patients already enrolled in the study at the time of giving the termination notice; (iv) all rights and licenses granted herein to the breaching Party in the Terminated Regions in the Field shall, for no additional consideration, immediately terminate with respect to the breaching Party; thereafter, the nonbreaching Party shall have the sole and exclusive right and license (exclusive even as to the breaching Party) to make, have made, use, sell, offer for sale and import Product in the Terminated Regions in the Field under the Palatin Technology, the Palatin Patent Rights, the King Technology and King Patent Rights and an exclusive right and license under the Joint Patent Rights and Joint Technology to make, have made, use, sell, offer for sale and import Product in the Terminated Regions in the Field; and (v) the breaching Party shall, within ten (10) days after the date of termination, provide and assign to the nonbreaching Party, at the breaching Party's expense, all clinical data, INDs, NDAs, Regulatory Approvals, Regulatory Filings and all other documentation reasonably useful in respect of Product in the Terminated Regions in the Field.

(b) In connection with any termination by King pursuant to this Section 11.2.3, Palatin will use its commercially reasonable efforts to assign or transfer to King Palatin's rights and benefits under the CT License Agreement (or otherwise provide to King the benefit of the same if assignment or transfer is not possible after using its commercially reasonably efforts) to the extent reasonably necessary for King to Develop and Market Product in the Terminated Regions in the Field, and King agrees to thereafter assume all subsequent responsibilities, liabilities, obligations (financial and otherwise) related thereto as of the relevant termination date, including any relating to a breach by King of the CT License Agreement, it being understood and agreed that King shall not be liable for, and Palatin shall remain liable for, any and all responsibilities, liabilities, breaches and obligations attributable to periods or accruing prior to or on such termination date. Should King not agree to assume such subsequent responsibilities, Palatin shall have no obligation to assign or transfer to King any of its rights or benefits under the CT License Agreement (or otherwise offer to King the benefit of the same if assignment or transfer is not possible after using its commercially reasonably efforts).

(c) The Parties shall make reconciling payments due and payable for the Final Calendar Year as required by Sections 6.3 and 6.4, as well as pay any other amounts due and owing on the date of termination.

(d) The Parties agree that the following royalties will be paid to the breaching Party in consideration of the monies paid to date by the breaching Party, the work completed to date by the breaching Party, and the licenses granted pursuant to this Section by the breaching Party.

With respect to royalties to be paid by King to Palatin only:

Termination Date Occurs	Royalty Payable on Net Sales by King of Product in the Field or on Consideration Received by King from Licensing or Sublicensing of Product in the Field in Territory	Royalty Payable on Consideration Received by King from Licensing or Sublicensing of Product in the Field in ROW
Prior to the Closing Date	No Royalty	No Royalty
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

[*]	[*]	[*]

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

Notwithstanding the foregoing, King shall not be required to pay to Palatin any royalty or other payment based on consideration paid to it as upfront licensing or sublicensing fees or license or sublicense maintenance fees.

With respect to royalties to be paid by Palatin to King only:

Termination Date Occurs	Royalty Payable on Net Sales by Palatin of Product in the Field or on Consideration Received by Palatin from Licensing or Sublicensing of Product in the Field in Territory	Royalty Payable on Consideration Received by Licensing or Sublicensing of Product in the Field in ROW
Prior to the Closing Date	No Royalty	No Royalty
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]
[*]	[*]	[*]

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

Notwithstanding the foregoing, Palatin shall not be required to pay to King (i) **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** and (ii) any royalty or other payment based on consideration paid to it as upfront licensing or sublicensing fees or license or sublicense maintenance fees.

(e) If the Party that is not proceeding with Development and Marketing of Products pursuant to this Section is the Manufacturing Party, the Manufacturing Party shall agree to supply to the Developing Party, at the Developing Party's election, all its requirements of Supply at **[INFORMATION OMITTED AND FILED SEPARATELY WITH THE COMMISSION UNDER RULE 24b-2.]** as is reasonably required by the Developing Party in order to Develop and Market Product for the shorter of (i) eighteen (18) months or (ii) as long as is reasonably required by the Developing Party to obtain Supply from a Third Party supplier or to manufacture such Supply on its own.

(f) In the event of a termination pursuant to this Section 11.2.3, the parties shall negotiate in good faith customary royalty protection provisions that shall be applicable to the payment of royalties post-termination, including without limitation anti-stacking protections and reductions in royalties for generic competition and infringing third-party sales, provided that the royalty rates set forth herein shall remain in full force and effect.

(g) Reporting. The Party that is proceeding with the Development and Marketing of the Product hereunder ("Proceeding Party") shall keep, and shall require each of its Affiliates to keep, full and accurate books of account containing all particulars relevant to its sales of Products that may be necessary for the purpose of calculating all royalties payable to the other Party ("Non-proceeding Party") hereunder. Such books of account, as well as all reasonably necessary supporting data, shall be kept at the principal place of business of the Proceeding Party and each Affiliate, as applicable, for the five (5) years next following the end of the Calendar Year to which each shall pertain, and shall be open for inspection by an independent certified public accountant reasonably acceptable to the Proceeding Party, upon reasonable notice during normal business hours at the Non-proceeding Party's expense, as the case may be, for the sole purpose of verifying royalty statements or compliance with this Agreement. In the event the inspection determines that royalties due Non-proceeding Party for any period have been underpaid by five percent (5%) or more, which underpayment has not since been remedied, then the Proceeding Party and/or its Affiliate, as applicable, shall pay for all costs of the inspection. All royalty payments set forth in this Agreement shall, if overdue, bear interest until payment at a per annum rate of two percent (2%) above the prime rate published in the Wall Street Journal, New York edition, on the due date. The payment of such interest shall not foreclose the Non-proceeding Party from exercising any other rights it may have as a consequence of the lateness of any payment. All information and data reviewed in the inspection shall be used only for the purpose of verifying royalties and shall be treated as the Proceeding Party's Confidential Information subject to the obligations of this Agreement. No audit shall be conducted hereunder more frequently than once during any twelve (12) month period.

(h) Quarterly Payments and Reports. In each year the amount of royalty due shall be calculated quarterly as of the end of each Calendar Quarter and shall be paid quarterly within the forty-five (45) days next following such date. Every such payment shall be supported by the accounting described herein. All royalties due hereunder are payable in United States dollars. When Products are sold for currency other than United States dollars, the earned royalties will first be determined in the foreign currency of the country in which such Products were sold and then converted into equivalent United States funds. The exchange rate will be that rate quoted in the Wall Street Journal, NY Edition on the last business day of the Calendar Quarter in which such sales were made.

(i) Accounting Reports. With each quarterly payment, the Proceeding Party shall deliver to the Non-proceeding Party a full and accurate accounting to include at least the following information:

(i) Quantity of Product subject to royalty manufactured and sold, by country, by the Proceeding Party and its Affiliates;

(ii) Total sales for each Product subject to royalty, by country and, to the extent used in any royalty calculations during such quarter, the exchange rate set forth herein;

(iii) Deductions applicable as provided herein or as otherwise agreed by the parties and all Net Sales calculations;

(iv) Compensation on Products received from sublicensees hereunder; and

(v) Total royalties and/or compensation payable to the Non-proceeding Party.

11.2.4 **Termination for Insolvency**. In the event that either Party files for protection under bankruptcy laws, makes an assignment for the benefit of creditors, appoints or suffers appointment of a receiver or trustee over its property, files a petition under any bankruptcy or insolvency act, has any such petition filed against it, or is unable to pay its debts as they come due (each, an **"**Event of Bankruptcy**"**), then the other Party may terminate this Agreement effective immediately upon written notice to such Party. In the event of a termination pursuant to this Section 11.2.4, the following shall apply:

(a) The non-terminating Party shall (i) at the election of the terminating party, remain responsible to supply

Product or API to the extent and in the same quantity it was obligated to supply at the time of such termination for a reasonable period of time to allow the other Party to find an alternate source of supply, or as otherwise required under a manufacturing and supply agreement between the Parties and (ii) make its personnel and other resources reasonably available to the other Party as necessary to effect an orderly transition of responsibilities, with the reasonable cost of such personnel and resources to be borne by the terminating Party after the effective date of termination.

(b) The Parties shall make reconciling payments due and payable for the Final Calendar Quarter as required by Sections 6.3 and 6.4, as well as pay any other amounts due and owing on the date of termination. The Parties agree that the licensor under this Agreement shall retain and may fully exercise all of its rights and elections under the Bankruptcy Code in the event of a bankruptcy by the other Party. The Parties further agree that in the event of the commencement of a bankruptcy proceeding by or against one Party under the Bankruptcy Code, the other Party shall be entitled to complete access to any such intellectual property pertaining to the rights granted in the licenses hereunder of the Party by or against whom a bankruptcy proceeding has been commenced and all embodiments of such intellectual property.

(c) If the Party that is not proceeding with Development and Marketing of Products pursuant to this Section is the Manufacturing Party, the Manufacturing Party shall agree to supply to the Developing Party, at the Developing Party's election, all its requirements of Supply at FAMC plus ten percent (10%) as is reasonably required by the Developing Party in order to Develop and Market Product for the longer of (i) one (1) year or (ii) as long as is reasonably required by the Developing Party to obtain Supply from a Third Party supplier or to manufacture such Supply on its own.

11.2.5 **Required Assignments**. If a Party is required by the terms of this Agreement to assign or transfer to the other Party any agreement, document or right and such Party, after utilizing the level of efforts required hereunder, is unable to do so as the result of forces beyond its reasonable control, then the Party shall use its commercially reasonable efforts to make available to the other Party the material benefits of such agreement, document or right in lieu of such assignment or transfer.

11.3 **Surviving Provisions**. Termination and expiration of this Agreement for any reason shall be without prejudice to:

(a) the rights and obligations of the Parties under this Agreement, which by their nature should survive the termination or expiration of this Agreement, including those set forth in Sections 8.2, 10, 11, 13, 14, 15.1, and 15.2, which shall survive; and

(b) any other rights or remedies provided at law or equity which either Party may otherwise have against the other. Nothing herein shall relieve any Party from liability from any breach of any covenant or agreement of such Party contained herein or any willful or intentional breach of any representation or warranty of such Party contained herein.

11.4 **Treatment Under Bankruptcy Code.** All rights related to and licenses of intellectual property granted under this Agreement by one Party to the other Party are, and shall otherwise be deemed to be, for purposes of Section 365(n) of the Bankruptcy Code, licenses of rights to "intellectual property" as defined under Section 101 (35A) of the Bankruptcy Code. The Parties agree that this Agreement and the Patent Rights and Technology licensed hereunder are considered by the Parties to be intellectual property subject to 11 U.S.C. § 365(n) of the Bankruptcy Code.

11.5 **Damages; Relief.** Termination of this Agreement shall not preclude any party from claiming any other damages, compensation or legal or equitable relief that it may be entitled to upon such termination.

12. REPRESENTATIONS AND WARRANTIES

Palatin and King each represents and warrants to the other as of the Effective Date as follows:

12.1 **Organization**. It is a corporation duly organized, validly existing and is in good standing under the laws of the jurisdiction of its organization, is qualified to do business and is in good standing as a foreign corporation in each jurisdiction in which the performance of its obligations hereunder requires such qualification and, except as would not have a material adverse effect on the ability of the Party to perform its obligations hereunder, has all requisite power and authority, corporate or otherwise, to conduct its business as now being conducted, to own, lease and operate its properties and to execute, deliver and perform this Agreement.

12.2 **Authorization and Right to Grant Licenses**. The execution, delivery and performance by it of this Agreement have been duly authorized by all necessary corporate action and does not and will not (a) require any consent or approval of its stockholders or (b) violate any provision of any agreement, law, rule, regulation, order, writ, judgment, injunction, decree, determination or award presently in effect having applicability to it or any provision of its charter documents. Each Party has the right, power and authority to grant licenses granted by it hereunder.

12.3 **Binding Agreement**. This Agreement is a legal, valid and binding obligation of it enforceable against it in accordance with its terms and conditions, except as enforceability may be limited by bankruptcy, insolvency, or other laws affecting the enforcement of creditors' rights generally, and except that the availability of the remedy of specific performance or other equitable relief is subject to the discretion of the court before which any proceeding therefor may be brought.

12.4 **No Inconsistent Obligation**. It is not under any obligation to any person, or entity, contractual or otherwise, that is conflicting or inconsistent in any respect with the terms of this Agreement or that would impede the diligent and complete fulfillment of its obligations hereunder and that it has all power and authority under all instruments or agreements to which it is a Party to enter into this Agreement and to perform its obligations hereunder.

12.5 **Absence of Actions**. It is not a party to or object of any litigation, suit, claim, action, proceeding, judgment, settlement, or investigation (an "Action") pending or, to the knowledge of it, threatened against it, or any of its Affiliates, or any of its properties or assets, before any governmental or regulatory authority that might reasonably be expected to have a material adverse effect on its ability to diligently and completely fulfill its obligations hereunder. A material breach of or inaccuracy in this Section 12.5 with respect to a Party shall constitute a material breach of this Agreement by such Party pursuant to Section 11.2.3.

12.6 **Applicable Law**. It has complied with and shall continue to comply with and shall perform all its duties and obligations hereunder in accordance with all Applicable Law.

12.7 **Debarment**. As of the date hereof, neither it nor any of its respective employees or agents, in their capacity as such, have been disqualified or debarred by the FDA, pursuant to 21 U.S.C. §§ 335(a) or (b), or been charged with or convicted under United States Law for conduct relating to the development or approval, or otherwise relating to the regulation of any Product under the Generic Drug Enforcement Act of 1992, or any other relevant law, rule or regulation or been disbarred, disqualified or convicted under or for any equivalent or similar applicable foreign law, rule or regulation.

Palatin further represents and warrants to King as of the Effective Date as follows:

12.8 **Clinical Trials**. All preclinical and clinical work, studies and trials conducted, supervised or monitored by Palatin with respect to any Product have, to the knowledge of Palatin, having made a reasonable inquiry, been conducted and/or performed in compliance with Applicable Laws, including Good Laboratory Practice, Good Clinical Practice and Good Manufacturing Practice requirements and ICH Guidelines. Palatin has, or, as applicable, any third parties with whom Palatin has contracted to perform any clinical trials or modifications thereto with respect to any Product has, to the knowledge of Palatin, having made a reasonable inquiry, obtained and

maintained any necessary Institutional Review Board ("IRB") approvals of clinical trials or modifications thereto sponsored by Palatin. To the knowledge of Palatin, having made a reasonable inquiry, in no clinical trial sponsored, conducted, supervised or monitored by Palatin with respect to any Product has any IRB, ethics committee, or European competent authority approval ever been suspended, terminated, put on clinical hold, or voluntarily withdrawn.

12.9 **Disclosure**. To Palatin's knowledge, no employees or agents of Palatin have made an untrue statement of material fact on behalf of Palatin to any Regulatory Authority with respect to any Product or failed to disclose a material fact required to be disclosed to any Regulatory Authority with respect to any Product.

12.10 **Intellectual Property**. (a) There is no litigation or proceeding pending or, to the actual knowledge of Palatin, having made a reasonable inquiry, threatened, concerning the validity or enforceability of any Palatin Patent Rights; (b) to Palatin's actual knowledge, after having made a reasonable inquiry, each of the issued patents a part of the Palatin Patent Rights is valid and enforceable; (c) Palatin is the sole and exclusive owner of the entire and unencumbered right, title and interest in and to each of the Palatin Patent Rights, free and clear of any liens, charges, encumbrances and adverse claims, including pledges, assignments, licenses, registered user agreements and covenants by Palatin not to sue third Persons; and (d) to the actual knowledge of Palatin, after having made a reasonable inquiry, neither the manufacture, use, offer for sale, sale or importation of Products currently being developed by Palatin, nor to the knowledge of Palatin, the conduct of the Development and Marketing Program as set forth in the portion of the Development and Marketing Plan set forth in Exhibit A provided by Palatin, will infringe or misappropriate the intellectual property rights of any third party.

12.11 **The CT License Agreement**. Neither Palatin nor, to the knowledge of Palatin without the obligation to perform due diligence, CT is in material breach of the CT Agreement and, to the knowledge of Palatin without the obligation to perform due diligence, the CT License Agreement is legal, valid, binding, enforceable and in full force and effect in all material respects.

12.12 **Government Funding.** To the extent Palatin has obtained or used any government funding in connection with the research or development of any Products or any subject matter disclosed in any Palatin Patent Rights, including without limitation pursuant to any grants from the National Institutes of Health, Palatin has complied in all material respects with the terms and conditions of such funding agreements and grants, and with all Applicable Laws with respect thereto.

King further represents and warrants to Palatin as follows:

12.13 **Statements in Connection with Investigations**. Each communication by King or its representatives to Palatin or its representatives, whether oral, written, electronic or otherwise, relating to an investigation of Medicaid claims and the state and local equivalents thereof by the SEC, the Office of Inspector General at the Department of Health & Human Services, the Department of Justice, the Department of Veterans Affairs, and the Centers for Medicare and Medicaid Services and all other governmental entities investigating any Medicaid claims, did not when made, and does not, contain any untrue statement of material fact, or omit to state a material fact necessary in order to make the statements therein, in light of the circumstances under which they were made, not misleading.

13. INDEMNIFICATION

13.1 **Indemnification of King by Palatin**. Palatin shall indemnify, defend and hold harmless King, its Affiliates and their respective directors, officers, employees, and agents (the "King Indemnitees"), against any liability, damage, loss or expense (including reasonable attorneys' fees and expenses of litigation) (collectively, "Losses") incurred by or imposed upon the King Indemnitees, or any one of them, in connection with any investigations, settlements, corporate integrity agreements or other similar agreements, claims, causes of action, liabilities, suits, actions, demands or judgments of third parties, including without limitation personal injury and product liability matters and claims of suppliers and Palatin employees (except in cases where such claims, suits, actions,

demands or judgments result from a material breach of this Agreement, negligence or willful misconduct, on the part of King) arising out of (a) any act or omission of Palatin in the performance of the Development and Marketing Program, (b) the breach of this Agreement, including the breach of any representation or warranty of Palatin under Section 12 hereof, (c) the negligence or willful misconduct of Palatin, its Affiliates or their respective employees or agents in the performance of any obligation under this Agreement, (d) acts or omissions of Palatin prior to the Effective Date, irrespective of when the relevant claim, cause of action, etc. is filed, (e) any government funding received by Palatin prior to the Effective Date in connection with the research or development of any Products or any subject matter disclosed in any Palatin Patent Rights, including without limitation pursuant to any grants from the National Institutes of Health, and the failure of Palatin to comply in all material respects with the terms and conditions of such funding agreements and grants, and with all Applicable Laws with respect thereto, including without limitation to obtain any necessary permits or waivers thereunder, and (f) any and all Marketing and Development of Products by Palatin post-termination, as permitted pursuant to Section 11.2 hereof.

13.2 **Indemnification of Palatin by King**. King shall indemnify, defend and hold harmless Palatin and its Affiliates and their respective directors, officers, employees, and agents (the "Palatin Indemnitees"), against any Losses incurred by or imposed upon the Palatin Indemnitees, or any one of them, in connection with any investigations, settlements, corporate integrity agreements or other similar agreements, claims, causes of action, liabilities, suits, actions, demands or judgments of third parties, including without limitation personal injury and product liability matters, government or regulatory investigations, and claims of suppliers and King employees (except in cases where such claims, suits, actions, demands or judgments result from a material breach of this Agreement, negligence or willful misconduct on the part of Palatin), arising out of (a) any act or omission of King in the performance of the Development and Marketing Program, (b) the breach of this Agreement, including the breach of any representation or warranty of King under Section 12 hereof, (c) the negligence or willful misconduct of King, its Affiliates or their respective employees or agents in the performance of any obligation under this Agreement, (d) acts or omissions of King prior to the Effective Date, irrespective of when the relevant claim, cause of action etc. is filed and (e) any and all Marketing and Development of Products by King post-termination, as permitted pursuant to Section 11.2 hereof.

13.3 **Conditions to Indemnification**. A Party seeking indemnification under this Section 13 (the "Indemnified Party") shall give prompt notice of the claim to the other Party (the "Indemnifying Party") and, provided that the Indemnifying Party is not contesting the indemnity obligation, shall permit the Indemnifying Party to control any litigation relating to such claim and disposition of any such claim. The Indemnifying Party shall act reasonably and in good faith with respect to all matters relating to the settlement or disposition of any claim as the settlement or disposition relates to Parties being indemnified under this Section 13. The Indemnifying Party shall not settle or otherwise resolve any claim without prior notice to the Indemnified Party and the consent of the Indemnified Party (which consent shall not be unreasonably withheld, conditioned or delayed) if such settlement involves anything other than the payment of money by the Indemnifying Party. The Indemnified Party shall reasonably cooperate with the Indemnifying Party in its defense of any claim for which indemnification is sought under this Section 13 and shall have the right to be present in person or through counsel at all legal proceedings giving rise to the right of indemnification.

13.4 **Insurance**. In addition to the insurance coverages required by Section 5.4 hereof, each Party shall obtain other insurance coverage from first class insurers in types and amounts commensurate with industry standards for such Party's activities hereunder.

13.5 **Warranty Disclaimer**. EXCEPT AS OTHERWISE EXPRESSLY PROVIDED IN THIS AGREEMENT, NEITHER PARTY MAKES ANY WARRANTY WITH RESPECT TO ANY TECHNOLOGY, GOODS, SERVICES, RIGHTS OR OTHER SUBJECT MATTER OF THIS AGREEMENT AND HEREBY DISCLAIMS WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE AND NONINFRINGEMENT WITH RESPECT TO ANY AND ALL OF THE FOREGOING.

13.6 **Limited Liability**. NOTWITHSTANDING ANYTHING TO THE CONTRARY IN THIS AGREEMENT, NEITHER PALATIN NOR KING WILL BE LIABLE WITH RESPECT TO ANY SUBJECT MATTER OF THIS

AGREEMENT UNDER ANY CONTRACT, NEGLIGENCE, STRICT LIABILITY OR OTHER LEGAL OR EQUITABLE THEORY FOR (I) ANY INDIRECT, INCIDENTAL, CONSEQUENTIAL OR PUNITIVE DAMAGES OR (II) COST OF PROCUREMENT OF SUBSTITUTE GOODS, TECHNOLOGY OR SERVICES.

14. REMEDIES

Subject to the terms of this Agreement, the Parties are not excluded from exercising or seeking any and all rights and remedies available, in law or in equity, under applicable law.

15. MISCELLANEOUS

15.1 **Notices**. All notices and communications shall be in writing, mailed via certified mail, return receipt requested, courier, facsimile transmission or e-mail with acknowledgment of receipt by overnight courier addressed as follows, or to such other address as may be designated from time to time:

If to King:
501 Fifth Street
Bristol, Tennessee 37620
Tel: (423) 989-8000
Fax:
Attention: General Counsel

With a copy to:
501 Fifth Street
Bristol, Tennessee 37620
Tel: (423) 989-8000
Fax:
Attention: Business Development

If to Palatin:
Palatin Technologies, Inc.
Cedar Brook Corporate Centre
4-C Cedar Brook Drive
Cranbury, New Jersey 08512
Tel: (609) 495-2200
Fax: (609) 495-2203
Attention: Carl Spana, Ph.D.

With a copy to:
Stephen T. Wills
Palatin Technologies, Inc.
Cedar Brook Corporate Centre
4-C Cedar Brook Drive
Cranbury, New Jersey 08512
Tel: (609) 495-2200
Fax: (609) 495-2203

And a copy to:
Mintz Levin Cohn Ferris Glovsky and Popeo PC
666 Third Avenue
New York, New York 10017
Tel: (212) 935-3000
Fax: (212) 983-3115
Attention: Faith L. Charles, Esq.

Except as otherwise expressly provided in this Agreement or in writing by both Parties, any notice, communication or payment required to be given or made shall be deemed given or made and effective when received.

15.2 **Governing Law.** This Agreement shall be governed by and construed in accordance with the laws of the State of New York, without regard to the application of principles of conflicts of law.

15.3 **Binding Effect**. This Agreement shall be binding upon and inure to the benefit of the Parties and their respective legal representatives, successors and permitted assigns.

15.4 **Headings.** Section and subsection headings are inserted for convenience of reference only and do not form a part of this Agreement.

15.5 **Counterparts.** This Agreement may be executed simultaneously in two or more counterparts, each of which shall be deemed an original.

15.6 **Amendment; Waiver**. This Agreement may be amended, modified, superseded or canceled, and any of the terms may be waived, only by a written instrument executed by each Party or, in the case of waiver, by the Party or Parties waiving compliance. The delay or failure of any Party at any time or times to require performance of any provisions shall in no manner affect the rights at a later time to enforce the same. No waiver by any Party of any condition or of the breach of any term contained in this Agreement, whether by conduct, or otherwise, in any one or more instances, shall be deemed to be, or considered as, a further or continuing waiver of any such condition or of the breach of such term or any other term of this Agreement.

15.7 **No Third Party Beneficiaries**. No Third Party, including any employee of any Party to this Agreement, shall have or acquire any rights by reason of this Agreement.

15.8 **Purposes and Scope**. The Parties hereto understand and agree that this Collaboration is limited solely to the Field in the Territory and in the ROW, and to the activities, rights and obligations as set forth in this Agreement. Nothing in this Agreement shall be construed (a) to create or imply a general partnership between the Parties, (b) to make either Party the agent of the other for any purpose, (c) to alter, amend, supersede or vitiate any other arrangements between the Parties with respect to any subject matters not covered hereunder, (d) to give either Party the right to bind the other, (e) to create any duties or obligations between the Parties except as expressly set forth herein, or (f) to grant any direct or implied licenses or any other right other than as expressly set forth herein.

15.9 **Performance by Affiliates**. Each Party shall have the right to direct its wholly-owned Affiliates to act in satisfaction of such Party's or Affiliate's obligations hereunder or make an assignment to an Affiliate in accordance with Section 15.10, provided that such Party shall remain liable and fully responsible for the performance of such Affiliate hereunder.

15.10 **Assignment and Successors**. Neither this Agreement nor any obligation of a Party hereunder may be assigned by either Party without the consent of the other which shall not be unreasonably withheld, except that each Party may assign this Agreement and the rights, obligations and interests of such Party, in whole or in part, to any of its Affiliates (subject to Section 15.9), to any purchaser of all of its assets and/or all of its assets to which this Agreement relates or to any successor corporation resulting from any merger or consolidation of such Party with or into such corporation. Any attempted assignment in violation of this Section 15.10 shall be null, void and of no effect. This Agreement shall be binding upon and inure to the benefit of all permitted successors-in-interest and assigns.

15.11 **Force Majeure**. In the event of the occurrence of a Force Majeure, the Parties shall not be deemed in breach of their obligations to the extent of the Force Majeure. The Party affected thereby shall use reasonable efforts to cure or overcome the same and resume performance of its obligations hereunder.

15.12 **Interpretation**. The Parties hereto acknowledge and agree that: (a) each Party and its counsel reviewed and negotiated the terms and provisions of this Agreement and have contributed to its revision; (b) the rule of construction to the effect that any ambiguities are resolved against the drafting Party shall not be employed in the interpretation of this Agreement; and (c) the terms and provisions of this Agreement shall be construed fairly as to all Parties hereto and not in a favor of or against any Party, regardless of which Party was generally responsible for the preparation of this Agreement.

15.13 **Integration; Severability**. This Agreement, the Securities Purchase Agreement, and the Warrant are the sole agreements with respect to the subject matter hereof and supersedes all other agreements and understandings between the Parties with respect to same. If any provision of this Agreement (including without limitation the temporal and substantive scope of the restrictions set forth in Section 7.6) is or becomes invalid or is ruled invalid by any court of competent jurisdiction or is deemed unenforceable, such provision or portion thereof will be modified or deleted in such a manner so as to make this Agreement as modified legal and enforceable to the fullest extent permitted under applicable law, and it is the intention of the Parties that the remainder of the Agreement shall not be affected.

15.14 **Further Assurances**. Each of Palatin and King agrees to duly execute and deliver, or cause to be duly executed and delivered, such further instruments and do and cause to be done such further acts and things, including, without limitation, the filing of such additional assignments, agreements, documents and instruments, that may be necessary or as the other Party hereto may at any time and from time to time reasonably request in connection with this Agreement or to carry out more effectively the provisions and purposes of, or to better assure and confirm unto such other Party its rights and remedies under, this Agreement.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the Parties have caused this Collaborative Development and Marketing Agreement to be executed by their duly authorized representatives as of the Effective Date.

PALATIN TECHNOLOGIES, INC.,

By:_____
Dr. Carl Spana
President and Chief Executive Officer

KING PHARMACEUTICALS, INC.,

By:_____
Name:
Title:

WARRANT CERTIFICATE

"THE SECURITIES REPRESENTED HEREBY HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "ACT"), OR UNDER THE SECURITIES LAWS OF ANY STATE. THESE SECURITIES HAVE BEEN ACQUIRED FOR INVESTMENT AND NOT WITH A VIEW TO DISTRIBUTION OR RESALE. SUCH SECURITIES MAY NOT BE OFFERED FOR SALE, SOLD, DELIVERED AFTER SALE, TRANSFERRED, PLEDGED OR HYPOTHECATED IN THE ABSENCE OF AN EFFECTIVE REGISTRATION STATEMENT COVERING SUCH SECURITIES UNDER THE ACT, AND ANY OTHER APPLICABLE SECURITIES LAWS, UNLESS THE HOLDER SHALL HAVE OBTAINED AN OPINION OF COUNSEL REASONABLY SATISFACTORY TO THE COMPANY THAT SUCH REGISTRATION IS NOT REQUIRED.

"THE SECURITIES REPRESENTED BY THIS CERTIFICATE ARE SUBJECT TO RESTRICTIONS ON TRANSFER SET FORTH IN THE SECURITIES PURCHASE AGREEMENT, DATED AUGUST 18, 2004 BETWEEN THE COMPANY AND THE REGISTERED OWNER OF SUCH SECURITIES (OR SUCH OWNER'S PREDECESSOR IN INTEREST). THE COMPANY WILL FURNISH A COPY OF SUCH AGREEMENT WITHOUT CHARGE UPON WRITTEN REQUEST OF THE HOLDER OF THIS CERTIFICATE."

235,225 Warrants

PALATIN TECHNOLOGIES, INC.

COMMON STOCK PURCHASE WARRANT CERTIFICATE

THE WARRANTS EVIDENCED BY THIS CERTIFICATE

ARE NOT EXERCISABLE AFTER 5:00 P.M.,

NEW YORK CITY TIME, ON

August 18, 2007

THIS CERTIFIES THAT:

KING PHARMACEUTICALS, INC., or its registered assigns, is the registered holder (the "Registered Holder") of the number of Warrants set forth above, each of which represents the right to purchase from Palatin Technologies, Inc., a Delaware corporation (the "Company"), 235,225 fully paid and nonassessable shares of common stock, par value $0.01 per share (the "Common Stock"), of the Company, exercisable on one or

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more occasions, in whole or in part, at the initial exercise price of $4.25 per Warrant, as adjusted from time to time (the "Exercise Price") at any time prior to the Expiration Date (as hereinafter defined), by surrendering this Warrant Certificate, with the Form of Election to Purchase duly executed at the principal office of the Company and by paying in full the Exercise Price, plus transfer taxes, if any. The term "Warrants" as used herein shall include this Warrant Certificate, and any warrants delivered in substitution or exchange therefor as provided herein. Payment of the Exercise Price shall be made in United States currency, by cash, certified or official bank check, checks, money order or wire transfer of commercially available funds payable to the order of the Company.

This Warrant Certificate is issued under and in accordance with the Securities Purchase Agreement (the "Purchase Agreement"), dated as of August 18, 2004, between the Company and the Registered Holder, and is subject to the terms and provisions contained in the Purchase Agreement. Article 6 of the Purchase Agreement governs the registration rights of the shares of Common Stock underlying the Warrants. Unless otherwise defined herein, the capitalized terms used herein shall have the meaning assigned to such terms in the Purchase Agreement.

As soon as practicable after the date of exercise of any Warrants, the Company shall issue, or cause the transfer agent for the Common Stock, if any, to issue a certificate or certificates for the number of full shares of Common Stock to which the Registered Holder is entitled as a result of its exercise of the Warrant, registered in accordance with the instructions set forth in the Form of Election to Purchase. All shares of Common Stock issued upon the exercise of any Warrant shall be validly authorized and issued, fully paid and nonassessable, and free from all taxes, liens and charges created by the Company in respect of the issue thereof. Each person in whose name any such certificate for shares of Common Stock is issued shall for all purposes be deemed to have become the holder of record of the Common Stock represented thereby on the date of exercise of the Warrants resulting in the issuance of such shares, irrespective of the date of issuance or delivery of such certificate for shares of Common Stock. As of the date of exercise, the holder of such shares of Common Stock shall, among other things, be entitled to vote such shares of Common Stock or to consent or to receive notice as a stockholder of the Company.

In the event that less than all of the Warrants represented by a Warrant Certificate are exercised, the Company shall execute and mail, by first-class mail, within 30 days of the date of exercise, to the Registered Holder, or such other person as shall be designated in the Form of Election to Purchase, a new Warrant Certificate evidencing the right to purchase the shares of Common Stock representing the unexercised portion of the Warrant which shall be in all other respects identical to the Warrant Certificate. In no event shall a fraction of a Warrant be exercised, and the Company shall distribute no Warrant Certificates representing fractions of Warrants. Final fractions of shares shall be treated as provided for herein.

The Company shall at all times reserve and keep available for issuance upon the exercise of the Warrants, or a portion thereof, such number of its authorized but unissued shares of Common Stock as is sufficient to permit the exercise in full of all outstanding Warrants.

Subject to the provisions hereof, the Exercise Price in effect from time to time shall be subject to adjustment, as follows:

(a) In case the Company shall at any time after the date hereof (i) declare a dividend on the outstanding Common Stock payable in shares of its capital stock, (ii) subdivide or convert the outstanding Common Stock, (iii) combine the outstanding Common Stock into a smaller number of shares, or (iv) issue any shares or otherwise increase or decrease the number of issued shares of its capital stock by reclassification of the Common Stock (including any such reclassification in connection with a consolidation or merger in which the Company is the continuing corporation), then, in each case, the Exercise Price, and the number of shares of Common Stock issuable upon exercise of the Warrants in effect at the time of the record date for such dividend or of the effective date of such subdivision, combination, or reclassification, shall be proportionately adjusted so that the Registered Holder of the Warrants after such time shall be entitled to receive the aggregate number and kind of shares which, if such Warrants had been exercised immediately prior to such time, such Registered Holders would have owned upon such exercise and been entitled to receive by virtue of such dividend, subdivision, combination or reclassification. Such adjustment shall be made successively whenever any event listed above shall occur.

(b) In case the Company shall issue or fix a record date for the issuance to all holders of Common Stock of rights, options, or warrants to subscribe for or purchase Common Stock (or securities convertible into or exchangeable for Common Stock) at a price per share (or having a conversion or exchange price per share, if a security convertible into or exchangeable for Common Stock) less than the Current Market Price per share of Common Stock (as determined below) on such record date, then, in each case, the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to such record date by a fraction, the numerator of which shall be the number of shares of Common Stock outstanding on such record date plus the number of shares of Common Stock which the aggregate offering price of the total number of shares of Common Stock so to be offered (or the aggregate initial conversion or exchange price of the convertible or exchangeable securities so to be offered) would purchase at such Current Market Price and the denominator of which shall be the number of shares of Common Stock outstanding on such record date plus the number of additional shares of Common Stock so issued or to be offered for subscription or purchase (or into which the convertible or exchangeable securities so to be offered are initially convertible or exchangeable). Such adjustment shall become effective at the close of business on such record date; provided, however, that, to the extent the shares of Common Stock (or securities convertible into or exchangeable for shares of Common Stock) are not delivered, the Exercise Price shall be readjusted after the expiration of such rights, options, or warrants (but only with respect to Warrants exercised after such expiration), to the Exercise Price which would then be in effect had the adjustments made upon the issuance of such rights, options, or warrants been made upon the basis of delivery of only the number of shares of Common Stock (or securities convertible into or exchangeable for shares of Common Stock) actually issued and the Exercise Price shall also be adjusted for any subsequent adjustment or other change to the number of shares of Common Stock issuable upon exercise, exchange or conversion of such rights, options, warrants or other

securities. Notwithstanding anything to the contrary contained herein, no adjustment shall be made to the Exercise Price until any condition to the vesting of such rights, options or warrants shall be fulfilled or satisfied (and than only with respect to the portion thereof which shall have vested). In case any subscription price may be paid in a consideration part or all of which shall be in a form other than cash, the value of such consideration shall be as determined in good faith by the board of directors of the Company, whose determination shall be conclusive absent manifest error. Shares of Common Stock owned by or held for the account of the Company or any majority-owned subsidiary shall not be deemed outstanding for the purpose of any such computation. If any event occurs of the type contemplated by the provisions of this paragraph but not expressly provided for by such provisions (including, without limitation, the granting of stock appreciation rights or other rights with equity features), then the board of directors of the Company shall make an appropriate adjustment in the Exercise Price so as to equitably protect the rights of holders of this Warrant.

(c) In case the Company shall distribute to all holders of Common Stock (including any such distribution made to the stockholders of the Company in connection with a consolidation or merger in which the Company is the continuing corporation) evidences of its indebtedness, cash (other than any cash dividend which, together with any cash dividends paid within the twelve (12) months prior to the record date for such distribution, does not exceed 5% of the Current Market Price at the record date for such distribution) or assets (other than distributions and dividends payable in shares of Common Stock), or rights, options, or warrants to subscribe for or purchase Common Stock, or securities convertible into or exchangeable for shares of Common Stock excluding those with respect to the issuance of which an adjustment of the Exercise Price is provided pursuant to the foregoing paragraph, then, in each case, the Exercise Price shall be adjusted by multiplying the Exercise Price in effect immediately prior to the record date for the determination of stockholders entitled to receive such distribution by a fraction, the numerator of which shall be the Current Market Price per share of Common Stock on such record date, less the fair market value (as determined in good faith by the board of directors of the Company, whose determination shall be conclusive absent manifest error) of the portion of the evidences of indebtedness or assets so to be distributed, or of such rights, options, or warrants or convertible or exchangeable securities, or the amount of such cash, applicable to one share, and the denominator of which shall be such Current Market Price per share of Common Stock. Such adjustment shall become effective at the close of business on such record date.

For the purpose of any computation under this Warrant, the “Current Market Price” per share of Common Stock on any date shall be deemed to be the average of the daily closing prices for the five (5) consecutive trading days immediately preceding the date in question. The closing price for each day shall be (a) the last reported sales price regular way or, in case no such reported sale takes place on such day, the closing bid price regular way, in either case on the principal national securities exchange or market system (including, for purposes hereof, the AMEX on which the Common Stock is listed for trading), (b) if the Common Stock is not then listed or admitted to trading on any national securities exchange or market system, the highest reported bid price for the Common Stock, as furnished by the National Association of Securities Dealers, Inc. or a similar

organization if AMEX is no longer reporting such information, or (c) if on any such date the Common Stock is not listed or admitted to trading on any national securities exchange and is not quoted by AMEX or any similar organization, as determined by reference to the “Pink Sheets” published by the National Quotation Bureau or, if not so published, by such other method of determining the market value of a share of Common Stock, as the board of directors of the Company shall in good faith from time to time deem to be fair, whose determination shall be conclusive absent manifest error shall be used.

No adjustment in the Exercise Price shall be required if such adjustment is less than $.05; provided, however, that any adjustments which by reason of this Warrant are not required to be made shall be carried forward and taken into account in any subsequent adjustment. All calculations under this Warrant shall be made to the nearest cent or to the nearest one thousandth of a share, as the case may be.

In any case in which this Warrant Certificate shall require that an adjustment in the Exercise Price be made effective as of a record date for a specified event, the Company may elect to defer, until the occurrence of such event, issuing to the Registered Holder, if the Registered Holder has exercised a Warrant after such record date, the shares of Common Stock, if any, issuable upon such exercise over and above the shares of Common Stock, if any, issuable upon such exercise on the basis of the Exercise Price in effect prior to such adjustment; provided, however, that the Company shall deliver to the Registered Holder a due bill or other appropriate instrument evidencing the Registered Holder’s right to receive such additional shares upon the occurrence of the event requiring such adjustment.

Upon each adjustment of the Exercise Price as a result of the calculations made pursuant to (b) and (c) above the Warrants shall thereafter evidence the right to purchase, at the adjusted Exercise Price, that number of shares (calculated to the nearest thousandth) obtained by dividing (A) the product obtained by multiplying the number of shares purchasable upon exercise of the Warrants prior to adjustment of the number of shares by the Exercise Price in effect prior to adjustment of the Exercise Price by (B) the Exercise Price in effect after such adjustment of the Exercise Price.

In case of any capital reorganization, other than in the cases referred to above, or the consolidation or merger of the Company with or into another corporation (other than a merger or consolidation in which the Company is the continuing corporation and which does not result in any reclassification of the outstanding shares of Common Stock or the conversion of such outstanding shares of Common Stock into shares of other stock or other securities or property), or the sale of the property of the Company as an entirety or substantially as an entirety (collectively such actions being hereinafter referred to as “Reorganizations”), there shall thereafter be deliverable upon exercise of any Warrant (in lieu of the number of shares of Common Stock theretofore deliverable) the kind and number of shares of stock or other securities or property to which the Registered Holder of the number of shares of Common Stock which would otherwise have been deliverable upon the exercise of such Warrant would have been entitled upon such Reorganization if such Warrant had been exercised in full immediately prior to such Reorganization or for relevant record date for such entitlement. In case of any Reorganization, appropriate

adjustment, as determined in good faith by the Board of Directors of the Company, shall be made in the application of the provisions herein set forth with respect to the rights and interests of the Registered Holder so that the provisions set forth herein shall thereafter be applicable, as nearly as practicable, in relation to any shares or other property thereafter deliverable upon exercise of Warrant. The Company shall not effect any such Reorganization, unless upon or prior to the consummation thereof the successor corporation, or if the Company shall be the surviving corporation in any such Reorganization and is not the issuer of the shares of stock or other securities or property to be delivered to holders of shares of the Common Stock outstanding at the effective time thereof, then such issuer, shall assume by written instrument the obligation to deliver to the Registered Holder of any warrant certificate such shares of stock, securities, cash or other property as such holder shall be entitled to purchase in accordance with the foregoing provisions. Notwithstanding anything to the contrary contained herein, in the event of sale or conveyance or other transfer of all or substantially all of the assets of the Company as a part of a plan for liquidation of the Company, all rights to exercise any Warrant shall terminate thirty (30) days after the Company gives written notice to each Registered Holder that such sale or conveyance of other transfer has been consummated.

In case of any reclassification or change of the shares of Common Stock issuable upon exercise of the Warrant, including, without limitation, in any reorganization (other than a change in par value or from no par value to a specified par value, or as a result of a subdivision or combination, but including any change in the shares into two or more classes or series of shares), the Registered Holder of the Warrant shall have the right thereafter to receive upon exercise of the Warrant solely the kind and amount of shares of stock and other securities, property, cash, or any combination thereof receivable upon such reclassification or change by the Registered Holder of the number of shares of Common Stock for which the Warrant might have been exercised immediately prior to such reclassification or change and the term “Common Stock” shall thereafter include, without limitation, such stock and other securities or right to cash distribution. Thereafter, appropriate provision shall be as nearly equivalent as practicable to the adjustments in this Warrant. The above provisions of this paragraph shall similarly apply to successive reclassifications and changes of shares of Common Stock.

Notwithstanding anything to the contrary herein contained, in the event of a transaction contemplated by the prior paragraph in which the surviving, continuing, successor, or purchasing corporation demands that all outstanding Warrant be extinguished prior to the closing date of the contemplated transaction, the Company shall give prior notice (the "Merger Notice") thereof to the Registered Holder advising it of such transaction. The Registered Holder shall have ten (10) days after the date of the Merger Notice to elect to (i) exercise the Warrant in the manner provided herein or (ii) receive from the surviving, continuing, successor, or purchasing corporation, with respect to outstanding Warrant, the same consideration receivable by a Registered Holder of the number of shares of Common Stock for which the Warrant might have been exercised immediately prior to such consolidation, merger, sale, or purchase reduced by such amount of the consideration as has a market value equal to the exercise price of the Warrant, as determined by the Board of Directors of the Company, whose determination shall be conclusive absent manifest error. If a Registered Holder fails to timely notify the

Company of its election, it shall be deemed for all purposes to have elected the option set forth in (ii) above. Any amounts receivable by a Registered Holder who has elected the option set forth in (ii) above shall be payable at the same time as amounts payable to stockholders in connection with any such transaction.

Whenever the Exercise Price is adjusted as provided in this Warrant, the Company will promptly obtain a certificate of the chief financial officer of the Company setting forth the Exercise Price as so adjusted and a brief statement of the facts accounting for such adjustment. Whenever any adjustment is made pursuant to this Warrant, the Company shall cause notice of such adjustment to be mailed to the Registered Holder within fifteen (15) days thereafter, such notice to include in reasonable detail (i) the events precipitating the adjustment, (ii) the computation of any adjustments, and (iii) the Exercise Price, the number of shares or the securities or other property purchasable upon exercise of each Warrant after giving effect to such adjustment.

In no event shall the Exercise Price be adjusted below the par value per share of the Common Stock.

In case at any time the Company shall propose:

(a) to pay any dividend or make any distribution on shares of Common Stock in shares of Common Stock or make any other distribution (other than regularly scheduled cash dividends which are not in a greater amount per share than the most recent such cash dividend) to all holders of Common Stock; or

(b) to issue any rights, warrants, or other securities to all holders of Common Stock entitling them to purchase any additional shares of Common Stock or any other rights, warrants, or other securities; or

(c) to effect any reclassification or change of outstanding shares of Common Stock, or any consolidation, merger, sale, lease, or conveyance of property, described above; or

(d) to effect any liquidation, dissolution, or winding-up of the Company;

then, in each such case, the Company shall cause notice of such proposed action to be mailed to the Registered Holder of a warrant certificate. Such notice shall be mailed, at least ten (10) days prior to the record date for determining holders of the Common Stock for purposes of receiving such payment or offer or at least ten (10) days prior to the earlier of the date upon which such action is to take place or any record date to determine holders of Common Stock entitled to receive such securities or other property, as the case may be.

Whenever any adjustment is made pursuant to this Warrant, the Company shall cause notice of such adjustment to be mailed to each Registered Holder of a Warrant Certificate within fifteen (15) days thereafter, such notice to include in reasonable detail (i) the

events precipitating the adjustment, (ii) the computation of any adjustments, and (iii) the Exercise Price, the number of shares or the securities or other property purchaseable upon exercise of each Warrant after giving effect to such adjustment.

Irrespective of any adjustments pursuant to this Warrant, Warrant Certificates theretofore or thereafter issued need not be amended or replaced, but certificates thereafter issued shall bear an appropriate legend or other notice of any adjustments.

The Company shall not be required upon the exercise of any Warrant to issue fractional shares of Common Stock which may result from adjustments in accordance with this Warrant to the Exercise Price or number of shares of Common Stock purchasable under each Warrant. If more than one Warrant is exercised at one time by the same Registered Holder, the number of full shares of Common Stock which shall be deliverable shall be computed based on the number of shares deliverable in exchange for the aggregate number of Warrant exercised. With respect to any final fraction of a share called for upon the exercise of any Warrant or portion thereof, the Company shall pay a cash adjustment in respect of such final fraction in an amount equal to the same fraction of the Current Market Price of a share of Common Stock calculated in accordance with this Warrant.

The Registered Holder hereby agrees not to sell, contract to sell, or otherwise sell, dispose of, loan, pledge or grant any rights (collectively, a “Disposition”) with respect to the Warrants or the Common Stock underlying the Warrants or any other securities of the Company issued in respect of the Warrants or the Common Stock underlying the Warrants (by way of stock split, stock dividend or other distribution, recapitalization or otherwise) (collectively, “Securities”) now owned or hereafter acquired directly by the Registered Holder or with respect to which such Registered Holder has or hereafter acquires the power of Disposition, otherwise than with the prior written consent of the Company. The foregoing restrictions shall commence on the date hereof and end on the one-year anniversary of the date hereof (the “Lock-up Period”). The foregoing restriction has been expressly agreed to preclude the holder of the Securities from engaging in any hedging or other transaction that is designed to or reasonably expected to lead to or result in a Disposition of Securities during the Lock-up Period, even if such Securities would be disposed of by someone other than such holder. Such prohibited hedging or other transactions would include, without limitation, any short sale (whether or not against the box) or any purchase, sale or grant of any right (including, without limitation, any put or call option) with respect to any Securities or with respect to any security (other than a broad-based market basket or index) that includes, relates to or derives any significant part of its value from the Securities. The Registered Holder also agrees and consents to the entry of stop transfer instructions with the Company’s transfer agent against the transfer of Securities held by the Registered Holder except in compliance with the foregoing restrictions.

No Warrant may be exercised after 5:00 P.M., New York City time, on the expiration date (the “Expiration Date”) which will be August 18, 2007. The Warrant evidenced hereby shall thereafter become void.

No Warrant Certificate shall entitle the registered holder thereof to any of the rights of a stockholder of the Company, including, without limitation, the right to vote, to receive dividends and other distributions, to receive any notice of, or to attend, meetings of stockholders or any other proceedings of the Company.

If any Warrant Certificate shall be mutilated, lost, stolen or destroyed, the Company in its discretion may execute and deliver, in exchange and substitution for and upon cancellation of a mutilated Warrant Certificate, or in lieu of or in substitution for a lost, stolen or destroyed Warrant Certificate, a new Warrant Certificate for the whole or partial Warrant represented by the Warrant Certificate so mutilated, lost, stolen or destroyed but only upon receipt of evidence of such loss, theft or destruction of such Warrant Certificate, and of the ownership thereof, and indemnity, if requested, all satisfactory to the Company. Applicants for such substitute Warrant Certificates shall also comply with such other reasonable regulations and pay such other reasonable charges incidental thereto as the Company may prescribe. Any such new Warrant Certificate shall constitute an original contractual obligation of the Company, whether or not the allegedly lost, stolen, mutilated or destroyed Warrant Certificate shall be at any time enforceable by anyone.

Prior to the latest time at which the Warrant may be exercised, subject to any applicable laws, rules or regulations restricting transferability, Warrant Certificates, subject to the provisions hereof, may be split up, combined or exchanged for other Warrant Certificates representing a like Warrant, or portion thereof or may be transferred in whole or in part. Any holder desiring to split up, combine or exchange a Warrant Certificate or Warrant Certificates shall make such request in writing delivered to the Company at its principal office and shall surrender the Warrant Certificate or Warrant Certificates so to be split up, combined or exchanged at said office with the Form of Assignment. Upon any such surrender for split up, combination, exchange or transfer, the Company shall execute and deliver to the person entitled thereto a Warrant Certificate or Warrant Certificates, as the case may be, as so requested in the Form of Assignment. The Company may require the Registered Holder to pay a sum sufficient to cover any tax or governmental charge that may be imposed in connection with any split up, combination, exchange or transfer of Warrant Certificates prior to the issuance of any new Warrant Certificate.

Any Warrant Certificate surrendered upon the exercise of Warrant or for split up, combination, exchange or transfer, or purchased or otherwise acquired by the Company, shall be canceled and shall not be reissued by the Company; and, except as otherwise provided herein in case of the exercise of less than all of the Warrant evidenced by a Warrant Certificate or in case of a split up, combination, exchange or transfer, no Warrant Certificate shall be issued hereunder in lieu of such canceled Warrant Certificate. Any Warrant Certificate so canceled shall be destroyed by the Company.

Every holder of a Warrant Certificate by accepting the same consents and agrees with the Company and with every other holder of a Warrant Certificate that:

(a) transfer of the Warrant Certificates shall be registered on the books of the Company only if surrendered at the principal office of the Company, duly endorsed or accompanied by a proper instrument of transfer; and

(b) prior to due presentment for registration of transfer, the Company may deem and treat the person in whose name the Warrant Certificate is registered as the absolute owner thereof and of the Warrant evidenced thereby (notwithstanding any notations of ownership or writing on the Warrant Certificates made by anyone other than the Company) for all purposes whatsoever, and the Company shall not be affected by any notice to the contrary.

The laws of the State of New York shall govern this Warrant Certificate.

IN WITNESS WHEREOF, the Company has caused this Warrant Certificate to be duly executed.

PALATIN TECHNOLOGIES, INC.,

By:_____

FORM OF

ELECTION TO PURCHASE

The undersigned hereby irrevocably elects to exercise of the Warrant represented by this Warrant Certificate and to purchase the shares of Common Stock issuable upon the exercise of said Warrant, and requests that certificates for such shares be issued and delivered as follows:

ISSUETO:

(NAME)

(ADDRESS, INCLUDING ZIP CODE)

at

(SOCIAL SECURITY OR OTHER TAX IDENTIFYING NUMBER)

DELIVERTO:

(NAME)

at

(ADDRESS, INCLUDING ZIP CODE)

If the portion of the Warrants hereby exercised is less than the full Warrant represented by this Warrant Certificate, the undersigned requests that a new Warrant Certificate representing the number of full Warrant not exercised be issued and delivered as set forth below.

In full payment of the purchase price with respect to the Warrant exercised and transfer taxes, if any, the undersigned hereby tenders payment of $ by cash, certified or official bank check or money order payable in United States currency to the order of the Company.

Dated: _____

(Insert Social Security or other identifying number of holder)

(Signature of registered holder)

(Signature of registered holder, if co-owned)

NOTE: Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate

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FORM OF ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns and transfers unto the Assignee named below all of the rights of the undersigned represented by the within Warrant Certificate, with respect to the Warrant, [or potion thereof], set forth below:

Name of Assignee	Address	Portion of Warrant

and does hereby irrevocably constitute and appoint Attorney to make such transfer on the books of Palatin Technologies, Inc. maintained for that purpose, with full power of substitution in the premises.

Dated: _____

(Insert Social Security or other identifying number of holder)

(Signature of registered holder)

(Signature must conform in all respects to name of holder as specified on the face of the Warrant Certificate.)

EX-23 6 ex23-1.htm

Consent of Independent Public Accounting Firm

The Board of Directors
Palatin Technologies, Inc.:

We consent to the incorporation by reference in the registration statements (No. 333-33569, 333-56605, 333-64951, 333-72873, 333-84421, 333-52024, 333-54981, 333-74990, 333-100469, 333-101764, 333-104370, 333-112908) on Form S-3 and in the registration statements (No. 333-57079, 333-83876) on Form S-8, of Palatin Technologies, Inc. of our report dated August 13, 2004, with respect to the consolidated balance sheets of Palatin Technologies, Inc. and subsidiary as of June 30, 2004 and 2003, and the related consolidated statements of operations, stockholders' equity (deficit) and cash flows for each of the years in the three-year period ended June 30, 2004, and for the period from January 28, 1986 (inception) through June 30, 2004, which report appears in the June 30, 2004, annual report on Form 10-K of Palatin Technologies, Inc.

The consolidated financial statements of Palatin Technologies, Inc. for the period from January 28, 1986 (inception) to June 30, 2001, to the extent related to the period from January 28, 1986 (inception) to June 30, 2004, were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those consolidated financial statements in their report dated September 10, 2001. Our opinion on the 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) to June 30, 2001, is based solely on the report of the other auditors.

/s/ KPMG

Philadelphia, Pennsylvania
September 10, 2004