

PALATIN TECHNOLOGIES INC  
Form DEF 14A  
October 28, 2004

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

**SCHEDULE 14A**

**Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934  
(Amendment No. \_\_\_ )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Proxy Statement

Definitive Additional Materials

Soliciting Material Pursuant to §240.14a-12

**Palatin Technologies, Inc.**

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(Name of Registrant as Specified In Its Charter)

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(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

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2) Aggregate number of securities to which transaction applies:

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3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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4) Date Filed:

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[PALATIN LOGO OMITTED]

**PALATIN TECHNOLOGIES, INC.**  
**4C Cedar Brook Drive**  
**Cranbury, New Jersey 08512**

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

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DATE Thursday, December 9, 2004

TIME 9:30 a.m., Eastern Time

PLACE Palatin's executive offices, 4C Cedar Brook Drive, Cranbury, New Jersey 08512

RECORD DATE October 28, 2004

ITEMS OF BUSINESS(1) election of directors;  
2) ratification of appointment of our independent auditors for the fiscal year ending June 30, 2005;  
(3) approval of an increase in common stock available for issuance under the 1996 Stock Option Plan; and  
(4) any other matters properly brought before the meeting.

STOCKHOLDER LIST A list of all stockholders entitled to vote at the meeting will be available for examination by any stockholder, for any purpose germane to the meeting, during ordinary business hours for 10 days before the meeting, at our executive offices, 4C Cedar Brook Drive, Cranbury, New Jersey 08512.

By order of the board of directors,

Stephen T. Wills, *Secretary*  
October 29, 2004

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**PALATIN TECHNOLOGIES, INC.**

**ANNUAL MEETING 2004**

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**PALATIN TECHNOLOGIES, INC.**

**ANNUAL MEETING 2004**

**PROXY STATEMENT**

**VOTING PROCEDURES AND SOLICITATION**

**YOUR VOTE IS IMPORTANT**

Whether or not you plan to attend the meeting, please complete and return the enclosed proxy card. Your prompt voting may save us the expense of following up with a second mailing. We began sending out these proxy materials on approximately October 29, 2004.

**METHODS OF VOTING**

You may vote by signing and returning the enclosed proxy card or by voting in person at the meeting. If you send in a proxy card, and also attend the meeting in person, the proxy holders will vote your shares as you instructed on your proxy card, unless you inform the Secretary at the meeting that you wish to vote in person.

**REVOKING A PROXY**

You may revoke your proxy by:

signing and returning another proxy card at a later date;

sending written notice of revocation to the Secretary at our offices, 4C Cedar Brook Drive, Cranbury, New Jersey 08512; or

informing the Secretary and voting in person at the meeting.

To be effective, a later-dated proxy or written revocation must arrive at our corporate offices before the start of the meeting.

**PROXY SOLICITATION**

We are soliciting the enclosed proxy card on behalf of the board of directors, and we will pay all costs of preparing, assembling and mailing the proxy materials. In addition to mailing out proxy materials, our officers and employees may solicit proxies by telephone or fax, without receiving any additional compensation for their services. We have

requested brokers, banks and other fiduciaries to forward proxy materials to the beneficial owners of our stock. We have engaged Mellon Investor Services LLC to solicit proxies for this annual meeting. We are paying Mellon \$7,000 at the start of the solicitation and we may pay additional fees after the solicitation depending on the services we use, plus certain of Mellon's out-of-pocket expenses.

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## **HOW PROXY CARDS ARE VOTED**

The proxy holders named on the proxy card are Carl Spana, Ph.D., chief executive officer, president and a director, and Stephen T. Wills, chief financial officer, executive vice president, secretary and treasurer. The proxy holders will vote shares according to the stockholder's instructions on the proxy card. If a signed proxy card does not contain instructions, then the proxy holders will vote the shares FOR the election of the director nominees listed on the card; FOR ratifying the appointment of KPMG LLP as our independent auditors for the fiscal year ending June 30, 2005; and FOR approval of the increase in common stock available for issuance under the 1996 Stock Option Plan; and in their discretion on any other business which may properly come before the meeting.

## **QUORUM AND VOTES REQUIRED**

A majority of the votes of outstanding shares of common stock and Series A preferred stock, represented at the meeting in person or by proxy, constitutes a quorum. Abstentions and broker non-votes will count towards the quorum. A broker non-vote occurs when a nominee holding shares for a beneficial owner does not vote on a particular proposal because the nominee does not have discretionary voting power for that particular item, and has not received instructions from the beneficial owner. Common stock and Series A preferred stock will vote together as one class on the three items of business listed on the proxy card.

Directors are elected by a plurality of votes cast, so the seven nominees receiving the most votes will be elected. Stockholders who do not wish to vote for one or more of the individual nominees may withhold authority in the space provided on the proxy card. Abstentions and broker non-votes will count neither for nor against election.

Ratifying the appointment of the independent auditors for the fiscal year ending June 30, 2005 requires a majority of the votes cast on that item. Abstentions and broker non-votes will count neither for nor against ratification.

Approval of the increase in common stock available for issuance under the 1996 Stock Option Plan requires a majority of the votes present (in person or by proxy) at the meeting. Abstentions and broker non-votes will count against the proposal.

## **VOTING RIGHTS, SHARES OUTSTANDING AND VOTES PER SHARE**

Holders of common stock and of Series A preferred stock at the close of business on the record date of October 28, 2004 are entitled to vote at the meeting.

Common stock: 53,980,506 shares outstanding, one vote per share

Series A preferred 11,697 shares outstanding, approximately 38.02 votes per share, a total of 444,739 votes stock:

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**ITEM ONE: ELECTION OF DIRECTORS**

We recommend voting FOR the seven nominees listed on the proxy card. At the meeting, the seven nominees who receive the most votes will be elected as directors to serve until the next annual meeting, or until their successors are elected and qualified. Each of the nominees is currently a director. If any of the nominees should become unavailable to serve on the board, the proxy holders will vote your shares for a board-approved substitute, or the board may reduce the number of directors.

**THE NOMINEES**

<u>Name</u>	<u>Age</u>	<u>Position with Palatin</u>
Carl Spana, Ph.D.	42	President, chief executive officer and director
John K.A. Prendergast, Ph.D.	50	Director, chairman of the board of directors
Perry B. Molinoff, M.D.	64	Executive vice president of research and development and director
Robert K. deVeer, Jr. (1) (2) (3)	58	Director
Zola P. Horovitz, Ph.D. (1) (2) (3)	70	Director
Robert I. Taber, Ph.D. (1) (2)	68	Director
Errol De Souza (2) (3)	50	Director

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- (1) Member of the audit committee.  
(2) Member of the compensation committee.  
(3) Member of the nominating and corporate governance committee.

CARL SPANA, Ph.D., co-founder of Palatin, has been our president and chief executive officer since June 14, 2000. He has been a director of Palatin since June 1996 and has been a director of our wholly-owned subsidiary, RhoMed Incorporated, since July 1995. From June 1996 through June 14, 2000, Dr. Spana served as an executive vice president and our chief technical officer. From June 1993 to June 1996, Dr. Spana was vice president of Paramount Capital Investments, LLC, a biotechnology and biopharmaceutical merchant banking firm, and of The Castle Group Ltd., a medical venture capital firm. Through his work at Paramount Capital Investments and Castle Group, Dr. Spana



co-founded and acquired several private biotechnology firms. From July 1991 to June 1993, Dr. Spana was a Research Associate at Bristol-Myers Squibb, a publicly traded pharmaceutical company, where he was involved in scientific research in the field of immunology. Dr. Spana is a director of AVAX Technologies, Inc., a publicly traded medical technology company. Dr. Spana received his Ph.D. in molecular biology from The Johns Hopkins University and his B.S. in biochemistry from Rutgers University.

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JOHN K.A. PRENDERGAST, Ph.D., co-founder of Palatin, has been chairman of the board since June 14, 2000, and a director since August 1996. Dr. Prendergast has been president and sole stockholder of Summercloud Bay, Inc., a biotechnology consulting firm, since 1993. He is a co-founder and/or a member of the board of Ingenex, Inc., Avigen, Inc., AVAX Technologies, Inc. and Antyra, Inc. From October 1991 through December 1997, Dr. Prendergast was a managing director of The Castle Group Ltd. Dr. Prendergast received his M.Sc. and Ph.D. from the University of New South Wales, Sydney, Australia and a C.S.S. in administration and management from Harvard University.

PERRY B. MOLINOFF, M.D. has been a director since November 2001. He served as our executive vice president for research and development from September 2001 until November 3, 2003, when he resigned to accept a position as Vice Provost for Research at the University of Pennsylvania. He is also a director of Cypress Bioscience, Inc. Dr. Molinoff's background includes more than 30 years of experience in both the industrial and educational sectors. From 1981 to 1994, he was a professor of pharmacology and chairman of the Department of Pharmacology at the University of Pennsylvania School of Medicine in Philadelphia. From January 1995 until March 2001, he was vice president of neuroscience and genitourinary drug discovery for the Bristol-Meyers Squibb Pharmaceutical Research Institute, where he was responsible for directing and implementing the Institute's research efforts. Dr. Molinoff earned his medical degree from Harvard Medical School.

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

ZOLA P. HOROVITZ, Ph.D. has been a director since February 2001. Before he retired from Bristol-Myers Squibb in 1994, Dr. Horovitz spent 34 years in various positions, including associate director of the Squibb Institute for Medical Research, vice president of development, vice president, scientific liaison, vice president of licensing, and vice president of business development and planning, for the pharmaceutical division of Bristol-Myers Squibb. He held advisory positions at the University of Pittsburgh, Rutgers College of Pharmacy and Princeton University. He is currently a director of six other publicly held companies: Genaera Corporation, Biocryst Pharmaceuticals, Inc., Avigen, Inc., Dov Pharmaceutical, Inc., NitroMed, Inc. and GenVec, Inc.; and three non-public companies: Phytion, Inc., Epigenesis Inc. and Immunicon Corporation. Dr. Horovitz earned his Ph.D. in Pharmacology from the University of Pittsburgh.

ROBERT I. TABER, Ph.D. has been a director since May 2001. Dr. Taber began his career in the pharmaceutical industry in 1962, holding a succession of positions within Schering Corporation's biological research group before leaving in 1982 as director of biological research. He has also held a number of increasingly important positions with DuPont Pharmaceuticals and the DuPont Merck Pharmaceutical Company, including director of pharmaceutical research, director of pharmaceutical and biotechnology research, vice president of pharmaceutical research

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and vice president of extramural research and development. From 1994 to 1998, Dr. Taber held the position of senior vice president of research and development at Synaptic Pharmaceuticals Corporation before founding Message Pharmaceuticals, Inc. in 1998. He is currently a director of Message Pharmaceuticals, Inc. and Antyra, Inc., and serves on the scientific advisory board of Locus Discovery, Inc. Dr. Taber earned his Ph.D. in pharmacology from the Medical College of Virginia.

ERROL DE SOUZA, Ph.D. has been a director since April 2003. Dr. De Souza has nearly two decades of experience in the field of drug discovery and development. Dr. DeSouza joined Archemix Corporation, a biopharmaceutical company focused on aptamer therapeutics, on April 1, 2003. From September 2002 to March 2003, he was president and chief executive officer and a director of Synaptic Pharmaceuticals. As a result of a merger effective March 2003, Synaptic Pharmaceuticals became a wholly owned subsidiary of H. Lundbeck A/S, an international pharmaceutical company. Prior to that, Dr. DeSouza held senior management positions with Aventis, and its predecessor company Hoechst Marion Roussel Pharmaceuticals, and was co-founder of Neurocrine Biosciences, Inc. He is currently a director of IDEXX Laboratories, Inc. and a professor at the Center for Molecular Biology and Behavioral Neurosciences at Rutgers University. Dr. DeSouza received his B.A. (Honors) in Physiology and his Ph.D. in Neuroendocrinology from the University of Toronto, Canada and he received his postdoctoral fellowship in Neuroscience from The John Hopkins School of Medicine, Baltimore, MD.

All current directors were elected at our last annual stockholders meeting on December 5, 2003.

## THE BOARD AND ITS COMMITTEES

*Committees and meetings.* The board has an audit committee, a compensation committee and a nominating and corporate governance committee. During the fiscal year ended June 30, 2004, the board met five times, the audit committee met four times, the compensation committee met twice and the nominating and corporate governance committee met once. Each director has attended at least 75% of the total number of meetings of the board and committees of the board on which he served. The board has adopted a policy encouraging each member of the board to attend the annual meeting of stockholders. Two of the seven directors attended the 2003 annual meeting.

*Audit committee.* We have a separately designated standing audit committee as defined in Section 3(a)(58)(A) of the Securities Exchange Act. The audit committee reviews the engagement of the independent public accountants and reviews the independence of the public accounting firm. The audit committee also reviews the audit and non-audit fees of the independent public accountants and the adequacy of our internal control procedures. The audit committee is currently composed of three non-employee directors, Messrs. deVeer, Horovitz and Taber. Until his resignation as a director effective October 14, 2003, the committee included Kevin S. Flannery. Dr. Horovitz joined the committee in October 2003. The board has determined that the members of the audit committee are independent, as defined in Section 121(A) of the American Stock Exchange listing requirements, and satisfy the requirements of the American Stock Exchange as to financial literacy and expertise. The board has determined that at least one member, Robert K. DeVeer, is an audit committee financial expert as defined by the

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Securities and Exchange Commission. The responsibilities of the audit committee are set forth in a written charter adopted by the board, a copy of which is attached to this proxy statement as Appendix A. The charter is also available

on our web site at [www.palatin.com](http://www.palatin.com). The report of the audit committee appears under Item 2 below.

*Compensation committee.* The compensation committee reviews and recommends to the board remuneration arrangements, compensation plans and option grants for our officers, key employees, directors and others, and administers our 1996 stock option plan. The compensation committee is composed of Messrs. deVeer and Horovitz, and since October 2003, Messrs. Taber and De Souza. Until his resignation as a director effective October 14, 2003, the committee included Mr. Flannery. The report of the compensation committee appears below, after the section on executive compensation.

*Nominating and corporate governance committee.* The nominating and corporate governance committee assists the board in determining qualified individuals to become directors; assists the board in determining the composition of committees; and reviews, assesses and makes recommendations to the board concerning policies and guidelines for corporate governance, including relationships of the board, the stockholders and management in determining Palatin's direction and performance. The nominating and corporate governance committee is composed of Messrs. deVeer, Horovitz and De Souza.

The nominating and corporate governance committee will consider stockholder recommendations of nominees for election to the board of directors if they are accompanied by a comprehensive written resume of the recommended nominee's business experience and background, and a signed consent from the recommended nominee stating that he or she is willing to be considered as a nominee and, if nominated and elected, will serve as a director. Stockholders may send their written recommendations with the required documentation to our executive offices at 4C Cedar Brook Drive, Cranbury, NJ 08512, Attention: Secretary, no later than the deadline for stockholder proposals specified under Stockholder Proposals For Next Annual Meeting on page 30.

For all potential candidates, the nominating and corporate governance committee may consider all factors it deems relevant, such as a candidate's personal integrity and sound judgment, business and professional skills and experience, independence, knowledge of the industry in which we operate, possible conflicts of interest, diversity, the extent to which the candidate would fill a present need on the board, and concern for the long-term interests of the stockholders. As set forth in the committee charter, persons recommended by stockholders will be considered on the same basis as candidates from other sources. A copy of the committee's written charter is attached to this proxy statement as Appendix B.

*Shareholder communications to the board.* Generally, shareholders who have questions or concerns should contact Stephen T. Wills, Secretary, Palatin Technologies, Inc., 4C Cedar Brook Drive, Cranbury, NJ 08512. However, any shareholders who wish to address questions regarding our business directly to the board of directors, or any individual director, should direct his or her questions to the non-employee Board members via e-mail at [boardofdirectors@palatin.com](mailto:boardofdirectors@palatin.com).

*Duration of office.* Unless a director resigns, all directors hold office until the next annual meeting of stockholders or until their successors have been elected and qualified.

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*Code of conduct and ethics.* We have adopted a code of conduct and ethics that applies to all of our employees, including our chief executive officer and chief financial and accounting officers. You can view the code of conduct and ethics at our website, [www.palatin.com](http://www.palatin.com). We will disclose any amendments to, or waivers from, provisions of the code of conduct and ethics that apply to our directors, principal executive and financial officers in a current report on Form 8-K within five business days following the date of the amendment or waiver, unless the rules of the American Stock Exchange permit website posting of amendments or waivers.

## COMPENSATION OF DIRECTORS

*Non-employee directors initial option grants.* When a non-employee director is first elected to the board, he receives an option to purchase 20,000 shares of common stock, at the market value on the date of grant. These options vest as to 25% of the option per year, starting on the date of grant. They expire 10 years from the date of grant.

*Non-employee directors annual option grants.* On July 1, the first day of the fiscal year, each non-employee director except Dr. Molinoff, with whom we have a consulting agreement, receives annually an option to purchase 20,000 shares of common stock at the closing price on the preceding business day. Messrs. deVeer, Horovitz, Taber and De Souza each received an option on July 1, 2004 to purchase 20,000 shares at \$4.21 per share, the closing price on June 30, 2004.

*Non-employee directors cash compensation.* Non-employee directors receive an annual retainer of \$8,000 payable on a quarterly basis, plus \$2,000 per in-person board meeting and \$300 per telephonic board meeting, and \$500 per committee meeting. A committee chairperson receives an additional \$500 per committee meeting.

*Non-employee directors expenses.* Non-employee directors are reimbursed for expenses incurred in performing their duties as directors, including attending all meetings of the board and any committees on which they serve.

*Employee directors.* Except for the chairman of the board, employee directors are not separately compensated for services as directors, but are reimbursed for expenses incurred in performing their duties as directors, including attending all meetings of the board and any committees on which they serve. Dr. Prendergast serves as chairman of the board at a salary of \$50,000 per year, as described under *Certain Relationships and Related Transactions* on page 27.

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## ITEM 2: RATIFICATION OF APPOINTMENT OF KPMG LLP AS INDEPENDENT AUDITORS

We recommend voting FOR the ratification of the appointment of KPMG LLP as our independent auditors for the fiscal year ending June 30, 2005. KPMG served as our independent auditors for the fiscal year ended June 30, 2004. We expect that a representative of KPMG will attend the annual meeting. The representative will have an opportunity to make a statement, if he or she desires, and will be available to respond to appropriate questions from stockholders.

*Audit Fees.* For the fiscal year ended June 30, 2004, KPMG billed us a total of \$148,376 for professional services rendered for the audit of our annual financial statements, review of financial statements in our Forms 10-Q and services provided in connection with regulatory filings. For the fiscal year ended June 30, 2003, the total was \$69,928.

*Audit-Related Fees.* During the fiscal years ended June 30, 2004 and 2003, KPMG did not perform or bill us for any audit-related services.

*Tax Fees.* For the fiscal year ended June 30, 2004, we anticipate that KPMG will bill us a total of \$15,000 for professional services rendered for tax compliance, tax advice and tax planning. For the fiscal year ended June 30, 2003, KPMG billed us \$12,000 for professional services rendered for tax compliance, tax advice and tax planning.

*All Other Fees.* KPMG did not perform or bill us for any services other than those described above for the fiscal years ended June 30, 2004 and 2003.

*Policy on Audit Committee Pre-Approval of Audit and Permissible Non-audit Services of Independent Auditors.* Consistent with SEC policies regarding auditor independence, the audit committee has responsibility for appointing, setting compensation and overseeing the work of the independent auditor. In recognition of this responsibility, the audit committee has established a policy to pre-approve all audit and permissible non-audit services provided by the independent auditor.

Before engaging the independent auditor for the next year's audit, management will submit to the audit committee for approval an estimate of fees for services expected to be rendered during that year in each of four categories:

1. audit services, including audit work performed in the preparation of financial statements, as well as work that generally only the independent auditor can reasonably be expected to provide, including comfort letters, statutory audits, and attest services and consultation regarding financial accounting and/or reporting standards;
2. audit-related services, including assurance and related services that are traditionally performed by the independent auditor, including due diligence related to mergers and acquisitions, employee benefit plan audits, and special procedures required to meet certain regulatory requirements;
3. tax services, including services performed by the independent auditor's tax personnel except those services specifically related to the audit of the financial statements, including fees in the areas of tax compliance, tax planning, and tax advice; and
4. all other services not described in the preceding categories. We generally do not request other services from the independent auditor.

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The audit committee pre-approves fees for each category of service. The fees are budgeted and the audit committee requires the independent auditor and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent auditor for additional services not contemplated in the original pre-approval. In those instances, the audit committee requires specific pre-approval before engaging the independent auditor.

The audit committee may delegate pre-approval authority to one or more of its members. The member to whom such authority is delegated must report, for informational purposes only, any pre-approval decisions to the audit committee at its next scheduled meeting.

In the event the stockholders do not ratify the appointment of KPMG as our independent public accountants, the audit committee will reconsider its appointment.

*Change of accountants.* On August 8, 2002, upon the recommendation and approval of our audit committee, we dismissed Arthur Andersen LLP as our principal independent public accountants and engaged KPMG.

In connection with the audits for the two (2) years ended June 30, 2001 and 2000 and the subsequent interim period through the filing date of our Annual Report on Form 10-K for the fiscal year ended June 30, 2002, there were no disagreements with Andersen on any matter of accounting principles or practices, financial statement disclosure, or

auditing scope or procedures which, if not resolved to the satisfaction of Andersen, would have caused Andersen to make reference to the subject matter of such disagreements in connection with their reports on our consolidated financial statements for such years; and there were no reportable events as defined in Item 304(a)(1)(v) of Regulation S-K.

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

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

During the years ended June 30, 2001 and 2000 and through the date we engaged KPMG, neither we nor someone on our behalf consulted KPMG regarding the application of accounting principles to a specified transaction, either completed or proposed, or the type of audit opinion that might be rendered on our financial statements, or any other matters or reportable events as set forth in Items 304(a)(2)(i) and (ii) of Regulation S-K under the Securities Act of 1993.

### **REPORT OF THE AUDIT COMMITTEE**

We have reviewed and discussed the audited financial statements for the fiscal year ended June 30, 2004 with the company's management and have discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees. In addition, we have

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received from KPMG the written disclosures and the letter required by the Independence Standards Board Standard No.1, Independence Discussions with Audit Committees, and we have discussed with KPMG their independence.

Based on these reviews and discussions, we recommended to the board of directors that the audited financial statements be included in the company's annual report on Form 10-K for the fiscal year ended June 30, 2004.

#### THE AUDIT COMMITTEE

Robert K. deVeer, Jr., Chairman

Zola P. Horovitz, Ph.D.

Robert I. Taber, Ph.D.

### **ITEM THREE: APPROVAL OF AN INCREASE IN COMMON STOCK AVAILABLE FOR ISSUANCE UNDER THE 1996 STOCK OPTION PLAN**

The board has authorized an amendment to our 1996 stock option plan to increase the number of shares of common stock available for issuance under the plan from 5,000,000 shares to 7,500,000 shares. Any increase in the number of shares available under the plan requires stockholder approval. The complete text of the amendment is set forth at the end of this section.

As of October 25, 2004, options to purchase 4,282,694 shares were outstanding, and options to purchase 440,350 shares had been exercised. This leaves only 276,956 shares available for grant under the plan. The board believes that our ability to continue providing non-cash compensation and incentives in the form of stock options is crucial to our ability to attract, retain and motivate talented employees, consultants and non-employee directors.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ITEM 2 PROPOSAL TO APPROVE THE INCREASE IN COMMON STOCK AVAILABLE FOR ISSUANCE UNDER THE 1996 STOCK OPTION PLAN.**

### **THE 1996 STOCK OPTION PLAN**

The 1996 stock option plan, which the stockholders approved in August 1997, is our only active stock option plan. Some options to purchase common stock are still outstanding under previous plans, but those plans are not available for granting new options. The 1996 plan will terminate in August 2006. Its purpose is to allow us to provide additional non-cash compensation and incentives, in the form of options to purchase our common stock, to our employees, non-employee directors and consultants.

*Administration and amendment of the plan.* The plan is administered by the compensation committee of the board or by the full board. The board may amend or terminate the plan at any time, except that without stockholder approval, the board may not:

increase the total number of shares available under the plan;

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change the manner of determining option prices;

extend the maximum term of options (10 years); or

extend the plan beyond its current expiration date of August 27, 2006.

No termination or amendment of the plan may adversely affect the rights of an option holder without the holder's consent.

*Participants.* Participation in the plan is limited to those employees, non-employee directors and consultants of Palatin or its subsidiaries to whom the compensation committee or board grants options under the plan. We currently have 67 employees, including three executive officers and the chairman of the board, and five non-employee directors, who are eligible to receive options under the plan.

*Option prices.* Recipients do not pay any consideration for the grant of an option, but will pay us the exercise price for common stock purchasable under an option if and when they choose to exercise the option. The exercise price per share for stock underlying the option is determined at the time of grant and must be at least the market price

of common stock on the date of grant. The market price of common stock on October 25, 2004 was \$2.73 per share.

*Option vesting and expiration.* The vesting schedule and expiration date of each option is determined at the time of grant. The maximum period for exercise of any option under the plan is 10 years from the date of grant. Although the plan expires in August 2006, options granted before the plan expires will continue to be exercisable until the expiration date of each individual option. Options may be subject to early termination as described below.

*Exercise.* An option holder may exercise all or any part of the vested portion of an option by delivering written notice to Palatin, along with payment in immediately available U.S. funds of the exercise price for the number of shares specified. An option holder who takes certain distributions (a hardship withdrawal) from a 401(k) plan of Palatin or its subsidiaries will not be able to exercise any option for a period of one year after the distribution.

*Termination.* Unless otherwise provided by the committee or board, if an option holder ceases to serve as an employee, non-employee director or consultant of Palatin or its subsidiaries, whether voluntarily or otherwise, that option holder's non-vested options will terminate immediately, and vested options will terminate on the earlier of 90 days after the option holder leaves employment or service, or the final expiration date of the option. If an option holder's employment or service is terminated for cause (as defined below), then that option holder's outstanding options will terminate immediately. For purposes of the plan, cause means:

the commission by an option holder of any act or omission that would constitute a crime under federal, state or equivalent foreign law;

the commission by an option holder of any act of moral turpitude;

fraud, dishonesty or other acts or omissions that result in a breach of any fiduciary or other material duty to Palatin or its subsidiaries; or

continued alcohol or other substance abuse that renders an option holder incapable of performing his or her material duties to the satisfaction of Palatin or its subsidiaries.

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All outstanding options will terminate upon Palatin's dissolution or liquidation, or a merger, reorganization or consolidation in which Palatin is not the surviving corporation, unless otherwise provided in a plan adopted to effect the change in Palatin's corporate status.

*Adjustments.* If we issue a common stock dividend, the number of shares purchasable under each outstanding option will increase to include the number of shares to which the holder would have been entitled to receive as a dividend if the option shares had been outstanding. If we exchange the outstanding common stock for a different number or kind of shares of stock or other securities of Palatin or another corporation, whether through reorganization, recapitalization, stock split, combination of shares, sale of assets, or merger or consolidation in which we are the surviving corporation, then each share of common stock purchasable under outstanding options will become the number and kind of securities for which each outstanding share of common stock has been exchanged.

*Tax consequences.* Options granted under the plan may be either tax-qualified employee incentive options or non-qualified options. Qualified options can be granted only to employees, while non-qualified options can be granted to employees, non-employee directors, and consultants.



In the case of qualified options, neither grant nor exercise results in compensation income to the employee or a compensation deduction for the company. If the employee holds the stock issued on exercise for a holding period of at least two years after the date of grant, or one year after the exercise (whichever is longer), then upon subsequent sale of the stock, the employee will recognize as capital gains income (not compensation income) the difference between the sale price and the exercise price. If the employee sells the stock before the prescribed holding period has passed (a disqualifying disposition), then the employee will recognize as compensation income the difference between the exercise price and the fair market value of the stock at the time of exercise. That compensation income will be added to the basis of the option stock in determining the capital gain, if any, on the disqualifying disposition.

In the case of non-qualified options, the grant does not result in compensation income for the option holder or a compensation deduction for the company. The exercise of a non-qualified option results in the option holder recognizing as compensation income the difference between the exercise price and the fair market value of the stock at the time of exercise. The company would have a compensation deduction in the same amount.

*Registration of shares and resale restrictions.* We have registered the common stock currently authorized for issuance under the plan under the Securities Act of 1933 on Form S-8. If the stockholders approve the proposed increase, we intend to register the additional 2,500,000 shares on Form S-8. However, all employees and consultants of Palatin and its subsidiaries must comply with our policy on securities trading, which includes restrictions on purchase and sale of our securities and handling of confidential information. Our securities trading policy restricts resale of common stock to specified window periods, and prohibits resale at any time when the employee or consultant possesses material non-public information about Palatin. Employees are encouraged to consult with our chief financial officer before reselling any common stock, even during a window period. Our securities trading policy does not, however, restrict the purchase of

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common stock from Palatin upon exercise of an option. Former employees and consultants are not bound by the securities trading policy unless they have so agreed.

*Transfer of options.* An option which is not an incentive stock option, as defined in Section 422(b) of the Internal Revenue Code, may be assigned or transferred to and exercised by a participant's family member as defined in the Securities and Exchange Commission's Form S-8, General Instruction A(5). Transfer of an option for value is permitted only to the extent not prohibited under Form S-8, General Instruction A(5). Otherwise, options or interests in options under the plan are not transferable except by will or the laws of descent and distribution, and options are exercisable only by the option holder during his or her lifetime.

## **OPTIONS GRANTED TO MANAGEMENT AND EMPLOYEES**

The following table shows all outstanding options as of October 25, 2004, whether currently exercisable or not, granted under the plan to our officers, directors and employees. This table does not include options to purchase a total of 149,167 shares granted to various consultants.

### **OUTSTANDING OPTIONS TABLE 1996 STOCK OPTION PLAN**

<u>Name and Position</u>	<u>Number of Option Shares</u>
Carl Spana, Ph.D., president, chief executive officer and director(1)	780,000
Stephen T. Wills, MST, CPA, executive vice president and chief financial officer, secretary and treasurer	651,250
Shubh D. Sharma, Ph.D., vice president and chief technical officer(2)	180,000
John K.A. Prendergast, Ph.D., director and chairman of the board(3)	406,667
Perry B. Molinoff, M.D., director	261,250
Robert K. deVeer, Jr., director	214,440
Zola P. Horovitz, Ph.D., director	105,000
Robert I. Taber, Ph.D., director	100,000
Errol de Souza, Ph.D., director	58,750
THREE EXECUTIVE OFFICERS AS A GROUP:	1,611,250
SIX NON-EXECUTIVE DIRECTORS AS A GROUP:	1,146,107
NON-MANAGEMENT EMPLOYEES AS A GROUP:(4)	1,376,170

(1) Does not include options to purchase 100,962 shares which Dr. Spana holds under other plans.

(2) Does not include options to purchase 14,699 shares which Dr. Sharma holds under other plans.

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(3) Includes options granted to Summercloud Bay, Inc., a consulting firm of which Dr. Prendergast is the president and sole stockholder.

(4) Does not include options to purchase 3,640 shares which non-executive employees hold under other plans. The total for non-executive employees does not include Dr. Prendergast, who is a non-executive officer, because his options are included with the non-executive directors.

*Grants to non-management employees.* If the stockholders approve the increase in plan shares, we expect to grant options for an aggregate of 394,200 shares of common stock to non-management employees, relating to bonuses for fiscal year 2004.

**INTEREST OF MANAGEMENT IN SHARE INCREASE**

We have not granted or agreed to grant any options to management other than the outstanding options as shown in the table above. If the stockholders approve the increase in plan shares, we expect to continue granting options in accordance with our current compensation policies.

*Executive option grants.* Our current employment agreements with executive officers do not require us to grant options. However, our current executive compensation practices include annual bonus compensation, which usually includes option grants to executive officers. The Summary Compensation Table on page 19 shows the amount of options granted to executive officers in fiscal years 2002, 2003 and 2004. During the fiscal year ended June 30, 2004, we granted options to our executive officers totaling 230,000 shares. For a description of our current executive compensation practices, see the Compensation Committee Report starting on page 23.

*Grants to chairman.* Dr. Prendergast, the chairman of the board, is also an employee of Palatin, but not an executive officer. Our current employment agreement with Dr. Prendergast does not require us to grant options. In fiscal 2004, we granted an option to Dr. Prendergast for 50,000 shares.

*Non-employee directors initial option grants.* When a non-employee director is first elected to the board, he receives an option to purchase 20,000 shares, at the market value on the date of grant. These options vest as to 25% of the option per year, starting on the date of grant. They expire ten years from the date of grant.

*Non-employee directors annual option grants.* On December 5, 2003, each non-employee director (Messrs. deVeer, Horovitz, Taber and De Souza) received an option to purchase 10,000 shares of common stock at \$3.16 per share. These options related to compensation for the six-month period from January 1 through June 30, 2004. They vested in six monthly installments, starting on the last day of January, 2004, and expire ten years from the date of grant. Starting July 1, 2004, each non-employee director will receive on July 1 of each year an option to purchase 20,000 shares of common stock at the closing price on June 30. These options vest in 12 monthly installments, starting on the last day of July, and expire ten years from the date of grant. Messrs. deVeer, Horovitz, Taber and De Souza each received an option on July 1, 2004, to purchase

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20,000 shares at \$4.21 per share, the closing price on June 30, 2004. The annual option grant does not apply to Dr. Molinoff, with whom we have a consulting agreement.

**TEXT OF PLAN AMENDMENT**

Section 3 of the plan will be amended to read as follows (changed language is bracketed and struck through):

3. Stock Subject to Plan.

~~[5,000,000]~~ 10,000,000 of the authorized but unissued shares of the Common Stock, \$0.01 par value, of the Company (the Common Stock ) are hereby reserved for issue upon the exercise of Options granted under the Plan; provided, however, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Common Stock are purchased by the Company and set aside for issue upon the exercise of Options. If any Options expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.

[END OF ITEM 3]

[REMAINDER OF PAGE INTENTIONALLY LEFT BLANK]

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Table of Contents**EXECUTIVE OFFICERS**

<u>Name</u>	<u>Age</u>	<u>Position with Palatin</u>
Carl Spana, Ph.D.	42	President, chief executive officer and director
Stephen T. Wills, CPA	47	Executive vice president and chief financial officer, secretary and treasurer
Shubh D. Sharma, Ph.D.	49	Vice president and chief technical officer

Executive officers are appointed by the board and serve at the discretion of the board. Each officer holds his position until his successor is appointed and qualified. All of the current executive officers hold office under employment agreements.

CARL SPANA, Ph.D., co-founder of Palatin, has been our president and chief executive officer since June 14, 2000. He has been a director of Palatin since June 1996 and has been a director of our wholly-owned subsidiary, RhoMed Incorporated, since July 1995. From June 1996 through June 14, 2000, Dr. Spana served as an executive vice president and our chief technical officer. From June 1993 to June 1996, Dr. Spana was vice president of Paramount Capital Investments, LLC, a biotechnology and biopharmaceutical merchant banking firm, and of The Castle Group Ltd., a medical venture capital firm. At Paramount Capital Investments and at Castle Group, Dr. Spana was responsible for discovering, evaluating, and commercializing biotechnologies. Through his work at Paramount Capital Investments and Castle Group, Dr. Spana co-founded and acquired several private biotechnology firms. From July 1991 to June 1993, Dr. Spana was a Research Associate at Bristol-Myers Squibb, a publicly traded pharmaceutical company, where he was involved in scientific research in the field of immunology. Dr. Spana is a director of AVAX Technologies, Inc., a publicly traded medical technology company. Dr. Spana received his Ph.D. in molecular biology from The Johns Hopkins University and his B.S. in biochemistry from Rutgers University.

STEPHEN T. WILLS, CPA, MST, has been a vice president, secretary, treasurer and our chief financial officer since November 1997. From July 1997 to August 2000, Mr. Wills was a vice president and the chief financial officer of Derma Sciences, Inc., a publicly held company which provides wound and skin care products, and currently serves as a director of Derma. From 1991 to August 2000, he was the president and chief operating officer of Golomb, Wills

& Company, P.C., a public accounting firm. Mr. Wills, a certified public accountant, received his B.S. in accounting from West Chester University, and an M.S. in taxation from Temple University.

SHUBH D. SHARMA, Ph.D., has been a vice president and chief technical officer since August 1, 2001. He had been our executive director of research since November 2000, and director of chemistry since 1996. He is the inventor of our MIDAS drug design technology platform. Dr. Sharma was associate director of research and development and director of peptide research for RhoMed Incorporated (now our wholly-owned subsidiary) at the time we merged with RhoMed in 1996, and had worked as director of peptide research for RhoMed since 1994. Previously he had worked on drug design and peptide research at the University of Arizona in Tucson, and at the Swiss Federal Institute of Technology in Zurich, Switzerland. Dr. Sharma received his Ph.D. from the Central Drug Research Institute in Lucknow, India.

## EXECUTIVE COMPENSATION

*Summary compensation table.* The following table summarizes the compensation paid to our chief executive officer and the other named executive officers for the last three fiscal years. With respect to the persons and periods covered in the following table, we made no restricted stock awards, have no outstanding stock appreciation rights ( SARs ) and have no long-term incentive plan ( LTIP ).

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#### SUMMARY COMPENSATION TABLE

Name and Principal Position -----	Year ----	Annual Compensation -----		Long Term Compensation -----	All other Compen- sation -----
		Salary -----	Bonus -----	Awards -----	
				Option Shares (1) -----	
Carl Spana, Ph.D., chief executive officer	2004	\$320,000	\$50,000 (2a)	100,000	\$3,805 (3)
	2003	\$290,000	\$50,000 (2b)	100,000	\$3,543 (4)
	2002	\$291,042 (5)	--	100,000 (6)	\$58,305 (7)
Stephen T. Wills, CPA, MST, chief financial officer	2004	\$265,000	\$40,000 (2a)	80,000	\$19,107 (8)
	2003	\$225,000	\$40,000 (2b)	80,000	\$18,131 (9)
	2002	\$226,833 (5)	--	70,000 (6)	\$16,472 (10)
Shubh D. Sharma, Ph.D., vice president and chief technical officer	2004	\$185,000	\$23,333 (2a)	50,000	\$19,107 (11)
	2003	\$165,000	\$23,333 (2b)	30,000	\$17,081 (12)
	2002	\$162,083	--	35,000 (5)	\$13,091 (13)
Perry B. Molinoff, M.D., executive vice president of research &	2004	\$90,372	\$26,667 (2a)	50,000	\$8,305 (15)
	2003	\$250,000	\$26,667 (2b)	60,000	\$17,665 (16)
	2002	\$205,715	--	--	\$46,192 (17)

development (14)

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- (1) The security underlying all options listed is common stock.
- (2a) Bonus earned and paid in fiscal year 2004.
- (2b) Bonus earned in fiscal year 2003 and paid in fiscal year 2004.
- (3) Includes 401(k) matching contributions of \$2,800 and life/disability insurance premiums of \$1,005.
- (4) Includes 401(k) matching contributions of \$2,538 and life/disability insurance premiums of \$1,005.
- (5) Includes one pay period of retroactive FY 2001 base salary earnings paid in FY 2002.
- (6) Options granted in fiscal year 2002 relate to compensation for fiscal year 2001. No options were granted relative to fiscal 2002.

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- (7) Includes a relocation benefit of \$55,000, 401(k) matching contributions of \$2,300 and life/disability insurance premiums of \$1,005.
- (8) Includes health insurance premiums of \$11,952, life/disability insurance premiums of \$1,005 and 401(k) matching contributions of \$6,150.
- (9) Includes health insurance premiums of \$11,126, life/disability insurance premiums of \$1,005 and 401(k) matching contributions of \$6,000.
- (10) Includes health insurance premiums of \$10,248, life/disability insurance premiums of \$1,005 and 401(k) matching contributions of \$5,219.
- (11) Includes health insurance premiums of \$11,952, life/disability insurance premiums of \$1,005 and 401(k) matching contributions of \$6,150.
- (12) Includes health insurance premiums of \$11,126, life/disability insurance premiums of \$1,005 and 401(k) matching contributions of \$4,950.
- (13) Includes health insurance premiums of \$10,248, life/disability insurance premiums of \$1,005 and 401(k) matching contributions of \$1,838.
- (14) Dr. Molinoff resigned as an officer effective November 3, 2003.
- (15) Includes health insurance premiums of \$3,639, life/disability insurance premiums of \$355 and 401(k) matching contributions of \$4,311.
- (16)

Includes health insurance premiums of \$10,660, life/disability insurance premiums of \$1,005 and 401(k) matching contributions of \$6,000.

(17) Includes a relocation benefit of \$32,809, health insurance premiums of \$8,482, life/disability insurance premiums of \$838 and 401(k) matching contributions of \$4,063.

*Option grants in last fiscal year.* The following table shows options granted to our named executive officers during the fiscal year ended June 30, 2004. All of the options listed were granted under our 1996 stock option plan, and the underlying security is common stock. All options granted in fiscal 2004 vested as to one third of the shares on the date of grant, and will vest as to the remaining two thirds of the shares only upon achievement of performance objectives. The exercise price for each option is equal to the market price of common stock on the date of grant. We have not granted any SARs.

[TABLE APPEARS ON FOLLOWING PAGE]

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**OPTION GRANTS IN LAST FISCAL YEAR**

INDIVIDUAL GRANTS						Pote
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price (\$/Sh)	Expiration Date		Va An Ap 5
Carl Spana	100,000	17.6%	\$3.24	07/16/2013		\$20
Stephen T. Wills	80,000	14.1%	\$3.24	07/16/2013		\$16
Shubh D. Sharma	50,000	8.8%	\$3.24	07/16/2013		\$10
Perry B. Molinoff	50,000	8.8%	\$3.24	07/16/2013		\$10

\* Potential realizable value is shown in response to SEC rules which require the information, for illustration purposes only. The values shown are not representations or projections of future stock prices or the future value of our common stock.

*Aggregated option exercises and fiscal year-end option values.* No executive officer exercised any options during the fiscal year ended June 30, 2004. We have not granted any SARs. Fiscal year-end values in the following table are based on the closing price for the common stock, as reported on AMEX on June 30, 2004, of \$4.21 per share.

**AGGREGATED OPTION EXERCISES  
AND FISCAL YEAR-END OPTION VALUES**

Name	Shares Acquired on Exercise	Value Realized	Shares Underlying Unexercised Options at Fiscal Year 2004 End		Value of Unexercised In-the-Money Options at Fiscal Year 2004	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Carl Spana	0	\$0	797,628	83,334	\$797,876	\$12,000
Stephen T. Wills	0	\$0	584,583	66,667	\$489,941	\$9,000
Shubh D. Sharma	0	\$0	148,032	46,667	\$85,550	\$4,000
Perry B. Molinoff	0	\$0	261,250	0	\$150,650	\$0

*Ten-year option repricings.* We did not adjust or amend the exercise price of any stock options during the fiscal year ended June 30, 2004. We have not granted any SARs. The following table shows all option repricings for all executive officers at any time during the last 10 years.

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**TEN-YEAR OPTION REPRICINGS**

Name	Date	Number of Securities Underlying Options Repriced or Amended (#)	Market Price of Stock at Time of Repricing or Amendment (\$)	Exercise Price at Time of Repricing or Amendment (\$)	New Exercise Price (\$)	Length of Original Option Remainder Date Repricing Amendment
Carl Spana	3/24/98	74,196	\$6.25	\$4.96	\$1.00	8 years 3 months
Charles Putnam (1)	3/24/98	74,196	\$6.25	\$4.96	\$1.00	8 years 3 months
Edward J. Quilty (2)	3/24/98	7,803	\$6.25	\$4.96	\$0.20	9 years 2 months
Edward J. Quilty	9/27/96	70,257	\$10.50	\$5.42	\$0.20	8 years 3 months

(1) Former executive vice president and chief operating officer.

(2) Former president and chief executive officer.

**EMPLOYMENT AGREEMENTS**

*Carl Spana, Ph.D. and Stephen T. Wills.* Dr. Spana and Mr. Wills each entered into an employment agreement with us for a two-year period commencing October 1, 2003. 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. Each agreement also provides for:

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 we establish, to the extent the employee's position, tenure, salary, age, health and other qualifications make him eligible to participate.

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Each agreement allows us 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) or 18 months (Wills), 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.

*Shubh D. Sharma, Ph.D.* Dr. Sharma entered into an employment agreement with us for a two-year period commencing October 1, 2003. Dr. Sharma is serving as a vice president and chief technical officer at a salary of \$185,000 per year. His agreement also provides for:

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bonus compensation based on completion of proprietary peptide libraries, and discretionary incentive bonuses in an amount to be decided by the company; and

participation in all benefit programs that we establish, to the extent the employee's position, tenure, salary, age, health and other qualifications make him eligible to participate.

The agreement allows us or the employee to terminate the agreement upon written notice, and contains other provisions for termination by the company for cause (as defined in the agreement). Early termination may, in some circumstances, result in severance pay at the salary then in effect, for a period of nine months. The agreement includes non-competition and confidentiality covenants.

*Perry B. Molinoff, M.D.* Dr. Molinoff entered into an employment agreement with us for a two-year period commencing September 4, 2001. His agreement automatically renewed for a one-year period unless terminated at least 30 days before the anniversary date. Dr. Molinoff served as executive vice president of research and development at a salary of \$265,000 per year. He resigned as an officer effective November 3, 2003, in order to accept appointment to the position of Vice Provost for Research at the University of Pennsylvania. He therefore no longer receives compensation or benefits under his employment agreement.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION INCOMPENSATION DECISIONS

During the fiscal year ended June 30, 2003, Mr. deVeer, Dr. Horovitz and Kevin S. Flannery, a former director, served on the compensation committee. During the fiscal year ended June 30, 2004, Mr. deVeer, Dr. Horovitz, Dr. Taber and Dr. De Souza served on the compensation committee.

There are no compensation committee interlocks with other companies.

## COMPENSATION COMMITTEE REPORT

The compensation committee of the board makes recommendations to the board about compensation of executive officers. The committee also administers the 1996 stock option plan and may grant options to non-management employees and consultants, but it is the board's policy to have the full board review and approve all option grants which the committee recommends for executive officers and directors. The committee also reviews and makes recommendations to the board concerning proposed employment agreements with executive officers. The committee evaluates performance and determines compensation policies and levels for executive officers. The members of the compensation committee are not, and have never been, employees or executive officers of Palatin. Mr. deVeer has served on the committee since August 2000, Dr. Horovitz has served on the committee since February 2001, and Dr. Taber has served on the committee since October 2003. Mr. Flannery served on the committee from August 2000 until his resignation as a director effective October 14, 2003.

*Executive compensation policy.* Competition for qualified senior management personnel in Palatin's industry is intense. In order to attract and retain qualified personnel, Palatin must

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offer compensation which is both comparable to similarly situated companies in current salary and benefits, and includes the potential for substantial rewards if Palatin is successful over the long term. Palatin's aim is to attract, retain and reward executive officers and other key employees who contribute to its long-term success and to motivate those individuals to enhance long-term stockholder value. It is Palatin's policy to enter into employment agreements with executive officers, preferably with an initial term of two years. To establish this relationship between executive compensation and creation of stockholder value, the board has adopted a total compensation package comprised of base salary, bonus and stock option awards. Key elements of the compensation philosophy are:

- Palatin pays compensation at levels competitive with other biotechnology companies with which Palatin competes for talent.
- Palatin maintains annual incentive opportunities sufficient to provide motivation to achieve specific operating goals and to generate rewards that bring total compensation to competitive levels.
- Palatin provides significant equity-based incentives for executives and other key employees to ensure that they are motivated over the long-term to respond to Palatin's business challenges and opportunities as owners and not just as employees.

*Determining executive compensation.* The committee usually meets twice per year to review how well management compensation is serving Palatin's goals, to make recommendations to the board for any adjustments, and

to recommend annual compensation for the coming year. Palatin's chief financial officer and human resources manager gather and report on information about compensation levels in comparable companies. We review the performance of each executive officer and the financial condition of the company. We then consider the following major components of executive compensation:

Base salary. The employment agreement with each executive sets an initial base salary, which is competitive in our industry, given the executive's experience and qualifications, at the time we enter into the agreement. The committee annually reviews each executive officer's base salary. Among the factors taken into consideration are (1) individual and corporate performance, (2) levels of responsibility, (3) prior experience, (4) breadth of knowledge of the industry, and (5) competitive pay practices. If salaries at comparable companies appear to have increased, we recommend similar increases, but only if each executive's historical performance warrants an increase and if the increase is prudent in view of Palatin's financial condition.

Annual bonus. In addition to the competitive base salary, we intend to reward executives each year for the achievement of specific goals, which may be financial, operational or technological. We consider objectively measurable goals, such as obtaining new investment capital, negotiating valuable contracts, or meeting regulatory requirements, and more subjective goals, such as quality of management performance and consistency of effort. Palatin's objectives consist of operating, strategic and financial goals that the board considers to be critical to Palatin's overall goal: building stockholder value. Our recommendations for cash bonuses also take into account Palatin's liquidity and capital resources at the time. Until Palatin's operations generate substantial income, we may recommend bonuses which consist partly or mainly of stock options. Stock options

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granted as part of bonus compensation will usually be immediately exercisable, or will vest over a shorter time than other incentive options.

Long-term incentives. At present, Palatin's only long-term incentive program is its 1996 stock option plan. Palatin does not have a defined benefit pension plan, and contributions to executives' accounts under Palatin's 401(K) plan are limited by federal tax regulations. Through option grants, executives receive significant equity incentives to build long-term stockholder value. The exercise price of options granted under the plan is at least 100% of fair market value of the common stock on the date of grant. Employees receive value from these grants only if the common stock appreciates over the long-term. We determine the size of option grants based on competitive practices at leading companies in the biotechnology industry and Palatin's philosophy of significantly linking executive compensation with stockholder interests.

*Fiscal year 2004 compensation.* During the fiscal year ended June 30, 2004, we entered into new employment agreements with Dr. Spana, Mr. Wills and Dr. Sharma, with annual base salaries of \$320,000 per year for Dr. Spana, \$265,000 for Mr. Wills and \$185,000 for Dr. Sharma. The base salaries for these executive officers, as provided in their employment agreements, reflect comparable salary figures for the industry, necessary to engage and retain individuals with their skills. Stock option grants for the executive officers reflected achievement of corporate and development goals. Starting December of 2002, we have made the vesting of a majority of the options granted to our executive officers contingent on achievement of performance objectives. We granted cash bonuses with respect to fiscal 2003, but did not pay out these bonuses until the first quarter of fiscal 2004.

The base salary, bonus and grants of stock options for our CEO, Carl Spana, Ph.D., were determined in accordance with the criteria described above under Determining executive compensation. Dr. Spana's compensation reflects the board's subjective assessment of (1) his performance, (2) his skills in relation to other CEOs in Palatin's industry, and (3) the board's assessment of Palatin's performance. Considering these factors, the committee set Dr. Spana's base annual salary at \$320,000 when we entered into our employment agreement with him effective October 1, 2003.

*Certain Tax Considerations.* Section 162(m) of the Internal Revenue Code limits the company to a deduction for federal income tax purposes of not more than \$1 million of compensation paid to certain executive officers in a taxable year. Compensation above \$1 million may be deducted if it is performance-based compensation within the meaning of the Code.

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The committee believes that at the present time it is unlikely that the compensation paid to any executive officer in a taxable year will exceed \$1 million. Therefore, the board has not established a policy for determining which forms of incentive compensation awarded to executive officers will be designed to qualify as performance based compensation.

SUBMITTED BY THE COMPENSATION COMMITTEE

Robert I. Taber, Chairman  
 Robert K. deVeer, Jr.  
 Zola P. Horovitz, Ph.D.  
 Errol De Souza, Ph.D.

**STOCK PERFORMANCE GRAPH**

The following graph compares the yearly change in the cumulative total shareholder return on our common stock with the cumulative total return on the Nasdaq Composite Index and the Nasdaq Biotechnology Index for the last five fiscal years, ending June 30, 2004. The graph assumes the investment of \$100 in each stock or index on June 30, 1999, and the reinvestment of any dividends (we have never paid a dividend).

[GRAPHIC OMITTED; GRAPH DATA SHOWN BELOW]

stock or index:	6/99	6/00	6/01	6/02	6/03	6/04
-----	----	----	----	----	----	----
Palatin common	\$100.00	\$153.42	\$94.25	\$43.40	\$69.92	\$92.27
Nasdaq composite	\$100.00	\$147.65	\$80.46	\$54.47	\$60.41	\$76.24
Nasdaq biotech	\$100.00	\$239.88	\$199.86	\$100.56	\$132.53	\$149.70

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## STOCK OWNERSHIP INFORMATION

## SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the SEC (the Securities and Exchange Commission) require us to disclose late filings of reports of stock ownership and changes in stock ownership by our directors and officers. To the best of our knowledge, all of the filings for our directors and officers were made on a timely basis in the fiscal year ended June 30, 2004.

**BENEFICIAL OWNERSHIP OF MANAGEMENT AND OTHERS**

each director, each of the named officers, and all current directors and officers as a group; and

all persons who, to our knowledge, beneficially own more than five percent of the common stock or Series A preferred stock.

Beneficial ownership here means direct or indirect voting or investment power over outstanding stock and stock which a person has the right to acquire now or within 60 days after October 25, 2004. Please see the footnotes for more detailed explanations of the holdings. Except as otherwise noted, to our knowledge, the persons named in the tables beneficially own and have sole voting and investment power over all shares listed.

The common stock has one vote per share and the Series A preferred stock has approximately 38.02 votes per share. Voting power is calculated on the basis of the aggregate of common stock and Series A preferred stock outstanding as of October 25, 2004. On October 25, 2004, 53,980,506 shares of common stock and 11,697 shares of Series A preferred stock were outstanding.

The address for all members of our management is c/o Palatin Technologies, Inc., 4C Cedar Brook Drive, Cranbury, NJ 08512. Addresses of other beneficial owners are in the footnotes to the table of beneficial owners.

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## MANAGEMENT:

Class	Name of Beneficial Owner	Shares	Percent of Class	Percent of Voting Power
Common	Carl Spana, Ph.D.	907,635 (1)	1.7%	*
Common	Stephen T. Wills	666,750 (2)	1.2%	*
Common	Shubh D. Sharma, Ph.D.	194,714 (3)	*	*
Common	John K.A. Prendergast, Ph.D.	407,840 (4)	*	*
Common	Perry B. Molinoff, M.D.	271,750 (5)	*	*
Common	Robert K. deVeer, Jr.	203,774 (6)	*	*
Common	Zola P. Horovitz, Ph.D.	95,834 (7)	*	*
Common	Robert I. Taber, Ph.D.	90,834 (8)	*	*
Common	Errol DeSouza, Ph.D.	42,083 (9)	*	*
Common	All current directors and executive officers as a group (nine persons):	2,880,714 (10)	5.1%	*

\*Less than one percent.

- (1) Includes 880,962 shares which Dr. Spana has the right to acquire under options.
- (2) Includes 651,250 shares which Mr. Wills has the right to acquire under options.
- (3) Includes 194,699 shares which Dr. Sharma has the right to acquire under options.
- (4) Includes 394,167 shares which Dr. Prendergast has the right to acquire under options.
- (5) Includes 261,750 shares which Dr. Molinoff has the right to acquire under options.
- (6) Includes 202,774 shares which Mr. deVeer has the right to acquire under options.
- (7) Includes 90,834 shares which Dr. Horovitz has the right to acquire under options.
- (8) Includes 85,834 shares which Dr. Taber has the right to acquire under options.
- (9) Shares which Mr. DeSouza has the right to acquire under options.
- (10) Includes 2,565,933 shares which directors and officers have the right to acquire under options.

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5% OR GREATER BENEFICIAL OWNERS:

Class	Name of Beneficial Owner	Shares	Percent of Class	Percent of Voting Power
Common	ProQuest (1)	6,161,972 (2)	11.4%	9.3%
Common	Lurie Investments (3)	4,230,984 (4)	7.9%	6.5%
Series A Preferred	J.F. Shea Co., Inc. (5)	5,000	41.9%	*

\*Less than one percent.

- (1) Includes the ownership of ProQuest Investments, L.P., ProQuest Investments II, L.P., ProQuest Investments II Advisors Fund, L.P. and ProQuest Companion Fund, L.P. ProQuest Associates LLC is the general partner of ProQuest Investments, L.P. and ProQuest Companion Fund, L.P. ProQuest Associates II LLC is the general partner of ProQuest Investments II, L.P. and ProQuest Investments II Advisors Fund, L.P. Address is 600 Alexander Park, Suite 204, Princeton, NJ 08540.
- (2) Includes 1,232,395 shares which the ProQuest entities have the right to acquire under warrants.
- (3) Includes the ownership of Lurie Investment Fund, LLC, ALFATECH, LLC, and WASK Investments, LLC. Mark Slezak is the investment manager for all three entities. Address is c/o Lurie Investments, 2 N. Riverside Plaza,

Suite 1500, Chicago, IL 60606.

- (4) Includes 766,197 shares which Lurie Investment Fund, LLC, ALFATECH, LLC, and WASK Investments, LLC have the right to acquire under warrants.
- (5) Address is 655 Brea Canyon Road, Walnut, CA 91789.

#### *CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS*

*John K.A. Prendergast, Ph.D.* Dr. Prendergast is the president and sole stockholder of Summercloud Bay, Inc., a corporation with which we had a consulting agreement to provide strategic and technology consulting services. During the fiscal year ended June 30, 2004, we paid a total of \$43,125 plus expenses to Summercloud Bay, Inc. for consulting services. The consulting agreement terminated June 30, 2004. In July 2003, we entered into an employment agreement with Dr. Prendergast under which he serves as chairman of the board. During the fiscal year ended June 30, 2004, he received a salary of \$45,000 per year. Effective July 1, 2004, his salary is \$50,000 per year. In addition, he may participate in all health benefit programs that we establish, to the extent that his position, tenure, salary, age, health and other qualifications make him eligible to participate.

*Perry B. Molinoff, M.D.* Upon his resignation effective November 3, 2003, in order to accept a position as Vice Provost for Research at the University of Pennsylvania, we agreed to extend the expiration date of Dr. Molinoff's currently vested stock options until 90 days after the end of his tenure as a director. The options would otherwise have expired 90 days after his resignation as an officer. In addition, as consideration for his services as a director and for continuing as a consultant, we agreed to grant him a stock option to purchase 50,000 shares of common stock at \$3.45 per share, the closing market price on November 3, 2003. We have

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entered into a consulting agreement with Dr. Molinoff under which we pay him \$5,000 per month for consulting services. The consulting agreement expires November 3, 2004.

*Kevin S. Flannery.* Effective October 14, 2003, the date of his resignation as a director, in consideration for his past services as a director and for mutual waivers and releases, we entered into an agreement with Mr. Flannery which provides for:

a stock option grant for 22,500 shares with an exercise price of \$4.46 per share, exercisable until March 31, 2005;

immediate vesting of all his stock options; and

removal of any restriction on transfer of his stock options and underlying shares (other than restrictions which may be required by federal or state securities laws).

#### **OTHER ITEMS OF BUSINESS**

We are not aware of any matters, other than the items of business discussed in this proxy statement, that may come before the meeting. If other items of business properly come before the meeting, the proxy holders will vote shares in accordance with their judgment.

### **STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING**

Stockholders may submit proposals on matters appropriate for stockholder action at annual meetings in accordance with regulations adopted by the Securities and Exchange Commission. To be considered for inclusion in the proxy statement and form of proxy relating to the next annual meeting of stockholders, such proposals must be received at our executive offices, 4C Cedar Brook Drive, Cranbury, NJ 08512, not later than July 1, 2005. Proposals should be directed to the attention of the Secretary.

For any proposal that is not submitted for inclusion in next year's proxy statement (as described in the preceding paragraph) but is instead sought to be presented directly at next year's annual meeting, SEC rules permit proxies to be voted at the discretion of the management if (a) we receive notice of the proposal before the close of business on September 13, 2005 and we advise stockholders in next year's proxy statement about the nature of the matter and how management intends to vote on such matter, or (b) we did not receive notice of the proposal prior to September 13, 2005.

### **ANNUAL REPORT ON FORM 10-K**

Our annual report on Form 10-K for the fiscal year ended June 30, 2004, including the financial statements and schedules but excluding exhibits, is being sent with this proxy statement without charge to each person whose proxy is being solicited.

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### **INFORMATION INCORPORATED BY REFERENCE**

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 or the Securities Exchange Act of 1934 that might incorporate this proxy statement in whole or in part, the audit committee report, the compensation committee report and the stock performance graph which follows the compensation committee report will not be deemed to be incorporated by reference into any such filing.

Your cooperation in giving this matter your immediate attention and returning your proxy card is greatly appreciated.

By order of the board of directors,

Stephen T. Wills, *Secretary*  
July 29, 2004

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APPENDIX A

**Audit Committee Charter**

**Purpose**

The audit committee is appointed by the board of directors of Palatin Technologies, Inc. to assist the board in fulfilling its oversight responsibilities by performing the following:

- Discuss with management and the independent auditors the integrity of the company's accounting policies, internal controls, corporate governance, financial statements, financial reporting practices and significant corporate risk exposures, and steps management has taken to monitor, control and report such exposures.
- Monitor the qualifications, independence and performance of the company's independent auditors.
- Monitor the company's overall direction and compliance with legal and regulatory requirements and corporate governance including its code of business conduct and ethics.
- Maintain open and direct lines of communication with the board and company's management and independent auditors.

**Authority**

The committee has the authority to retain special legal, accounting or other experts for advice, consultation or special investigation. The committee may request any officer or employee of the company, the company's outside legal counsel, or the independent auditor to attend a meeting of the committee or to meet with any member of, or consultants to, the committee. The committee may also, to the extent it deems necessary or appropriate, meet with the company's investment bankers or financial analysts who follow the company. The committee will have full access to the books, records and facilities of the company.

**Responsibilities**

In carrying out its oversight responsibilities, the committee will:

*Financial Statement and Disclosure Matters*

1. Review and discuss the annual audited financial statements, including disclosures made in Management's Discussion and Analysis, with management and the independent auditors, and make its recommendation to the board as to the inclusion of the company's audited financial statements in the company's annual report on Form 10-K.
2. Review and discuss with management and the independent auditors the company's quarterly financial results prior to the filing of the Form 10-Q, including disclosures made in Management's Discussion and Analysis, the results

of the independent auditors' review of the quarterly financial statements.

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3. Discuss with management and the independent auditor significant financial reporting issues and judgments made in connection with the preparation of the company's financial statements, including any significant changes in the company's selection or application of accounting principles, any major issues as to the adequacy of the company's internal controls, the development, selection and disclosure of critical accounting estimates, and analyses of the effect of alternative assumptions, estimates or Generally Accepted Accounting Principles (GAAP) methods on the company's financial statements.

4. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as off-balance sheet structures related to the company's financial statements.

5. Discuss with management the company's earnings press releases, including the use of pro forma or adjusted non-GAAP information, as well as financial information and earnings guidance provided to analysts and rating agencies.

6. Discuss with the independent auditors the matters required to be discussed by American Institute of Certified Public Accountants (AICPA) Statement on Auditing Standards No. 61 (Communication with Audit Committees). In particular, discuss:

- The adoption of, or changes to, the company's significant auditing and accounting principles and practices as suggested by the independent auditor or management.
- The management letter provided by the independent auditor and the company's response to that letter.
- Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or access to requested information, and any significant disagreements with management.

*Independent Auditor Matters*

7. Approve the appointment of the independent auditor, which firm is ultimately accountable to the audit committee of the board, as the shareholders' representatives. Determine and approve audit engagement fees and other compensation to be paid to independent auditors.

8. Review the experience and qualifications of the senior members of the independent auditor's team.

9. Obtain and review a report from the independent auditor at least annually regarding (a) the auditor's internal quality-control procedures, (b) any material issues raised by the most recent quality-control review, or peer review, of the auditor, or by any inquiry or investigation by governmental or professional authorities within the preceding five years respecting one or more independent audits carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent auditor and the company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whether the auditor's quality controls are adequate and the provision of non-audit services is compatible with maintaining the auditor's independence, taking into account the opinions of management.

10. Ensure that neither the lead audit partner nor the reviewing audit partner perform audit services for the company for more than five (5) consecutive fiscal years.

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11. Ensure that the independent auditors submit on a periodic basis to the committee a formal written statement delineating all relationships between the independent auditors and the company, and actively engage in a dialogue with the independent auditors with respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors.

12. Set policies for the company's hiring of employees or former employees of the independent auditor who were engaged on the company's account during the preceding five-year period and ensure that no person employed by the independent auditor during the preceding one-year period is hired as a chief executive officer, controller, chief financial officer, chief accounting officer, or any equivalent position for the company.

13. Discuss with the engagement partner of the independent auditor issues on which he or she was consulted by the company's audit team and matters of audit quality and consistency.

14. Determine whether to retain or terminate the independent auditor and inform the board of its decision.

15. Approve, and discuss the scope and approach of, all auditing services (including comfort letters and statutory audits) and any non-audit work to be undertaken by the independent auditor prior to the performance of such work and disclose any such approvals in the company's periodic filings.

*Internal Controls*

16. Discuss with the independent auditors:

- The adequacy and effectiveness of the company's internal controls, including computerized information system controls and security, and consider any recommendations for improvement of such controls.
- Any related significant findings and recommendations of the independent auditors together with management's responses.

*Legal and Tax Matters*

17. Discuss with management (including the General Counsel) the status of significant legal and tax matters that could have a material impact on the company's financial statements.

*Compliance Matters*

18. Obtain from the independent auditor assurance that Section 10A (a) through (f) of the Securities and Exchange Act of 1934, as amended, has not been implicated.

19. Discuss with management and the independent auditor the company's compliance with applicable laws and regulations and any material reports, correspondence or inquiries from regulatory or government agencies and any employee complaints or published reports which raise material issues regarding the company's financial statements or accounting policies.

20. Obtain reports from management and the independent auditor that the company and its subsidiary entities are in conformity with applicable legal requirements, legal business policies, regulatory requirements and the company's Code of Business Conduct and Ethics. Review reports and disclosures of insider and affiliated party transactions. Advise the board

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with respect to the company's policies and procedures regarding compliance with applicable laws and regulations and with the company's Code of Business Conduct and Ethics.

21. Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls, or auditing matters, and the confidential anonymous submissions by employees of concerns regarding questionable accounting or auditing matters.

22. Review any report of evidence of a material violation made to the committee by any of the company's in-house or outside attorneys and take all necessary and appropriate action in response thereto.

*Risk Management*

24. Meet periodically with management to discuss the company's major risk exposures and the steps taken to insure appropriate processes are in place to identify, manage, and control business risks associated with the company's business objectives.

25. Discuss with management significant risk management failures, if any, including management's response.

**Membership**

The committee will consist of three or more directors appointed by the board. The composition of the committee will comply with the independence and experience requirements of the American Stock Exchange, the Securities and Exchange Commission and any applicable laws.

In fulfilling their responsibilities, it is recognized that members of the committee are not full-time employees of the company. It is not the duty or responsibility of the committee or its members to conduct field work or other types of auditing, legal, or accounting reviews or procedures. The company's management is responsible for preparing the company's financial statements and the independent auditors are responsible for auditing those financial statements.

Unless he or she believes to the contrary (in which case, he or she will advise the committee of such belief), each member of the committee will be entitled to assume and rely on (1) the integrity of those persons and organizations within and outside the company that it receives information from and (2) the accuracy of the financial, legal, safety, health and environment, and other information provided to the committee by such persons or organizations.

## Meetings

Except as otherwise required by the company's certificate of incorporation or bylaws, a majority of the members of the committee will constitute a quorum for the transaction of business and the act of a majority of the members present at any meeting at which there is a quorum will be the act of the committee.

The chairperson of the committee will be responsible for scheduling all meetings of the committee and providing the committee with a written agenda for each meeting. The chairperson will preside at the meetings of the committee. In the absence of the chairperson, the majority of

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the members of the committee present at a meeting will appoint a member to preside at the meeting.

The committee will make regular reports to the board, and all actions of the committee will be reported to the board at the next regular meeting of the board. The Secretary or an Assistant Secretary of the company, or a member of the committee, will keep the minutes of the committee, which will be distributed to all board members.

The committee will meet at least quarterly with management and the independent auditors in separate executive sessions.

## Compensation

The company will compensate committee members solely in the form of directors' fees. The committee members may, however, receive higher fees than basic board service by other board members, in light of their heightened responsibilities to the company.

## Miscellaneous

The committee will review and reassess the adequacy of this charter and the composition of the committee annually and recommend any proposed changes to the board for approval.

The committee will annually review its own performance.

The committee will prepare the report of the committee required by the rules of the Securities and Exchange Commission to be included in the company's annual proxy statement. The committee will also perform such other duties as the board may assign to it from time to time.

This charter does not amend the provisions of the bylaws with respect to the audit committee or other committees of the board absent a separate resolution of the board expressly amending the bylaws.

END OF APPENDIX A

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APPENDIX B

**NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHARTER**

**I. PURPOSE**

The Nominating and Corporate Governance Committee (the Committee) is appointed by the Board of Directors (the Board) of Palatin Technologies, Inc. (the Company): (1) to assist the Board by identifying qualified candidates for director, and to recommend to the Board the director nominees for the next annual meeting of shareholders; (2) to lead the Board in its annual review of the Board's performance; (3) to recommend to the Board director nominees for each Board Committee; (4) to oversee the annual process of evaluation of the performance of the Company's management; and (5) to develop and recommend to the Board corporate governance guidelines applicable to the Company.

To assist in carrying out its duties, the Committee shall have sole authority to retain and terminate any search firm to be used to identify candidates to serve as a director, including sole authority to approve the search firm's fees and other retention terms. In addition, the Committee shall have authority to obtain advice and assistance from internal or external legal, accounting or other advisors.

**II. COMPOSITION**

The Committee shall be comprised of no fewer than three members. All members of the Committee shall meet the independence requirements of the American Stock Exchange.

Committee members shall be elected by the Board and may be replaced by the Board. Unless a Chair is elected by the full Board, the members of the Committee may designate a Chair by majority vote of the full Committee membership.

**III. MEETINGS**

The Nominating and Governance Committee shall meet at least twice a year and at such other times as it deems necessary to carry out its responsibilities. The Chair of the Committee and/or the Board may call such meetings.

**IV. GOALS, RESPONSIBILITIES AND DUTIES**

To fulfill its responsibilities and duties, the Nominating and Governance Committee shall, among other things:

1. Evaluate the current composition, organization and governance of the Board of Directors and its Committees, and make recommendations to the Board for approval.
2. Determine desired Board member skills and attributes and conduct searches for prospective directors whose skills and attributes reflect those desired and evaluate

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and propose nominees for election to the Board of Directors. At a minimum, nominees for service on the Board must be well-regarded and experienced participants in their field(s) of specialty, familiar at the time of their appointment with the Company's business, willing to devote the time and attention necessary to deepen and refine their understanding of the Company and the issues facing it, and must have an

understanding of the demands and responsibilities of service on a public company board of directors. In making such recommendations, the Committee will also consider such qualities as independence from the Company, as the definition of independence may be revised from time to time. Each nominee will be considered both on his or her individual merits and in relation to existing or other potential members of the Board, with a view to establishing a well-rounded, diverse, knowledgeable, and experienced Board.

3. Administer the annual Board of Directors performance evaluation process, including conducting surveys of director observations, suggestions and preferences.
4. Evaluate and make recommendations to the Board of Directors concerning the appointment of directors to Board committees, the selection of Board committee chairs, and proposal of the slate of directors for election to the Board.
5. Consider all bona fide candidates recommended by shareholders for nomination for election to the Board if they are accompanied by a comprehensive written resume of the recommended nominee's business experience and background, and a signed consent from the recommended nominee stating that he or she is willing to be considered as a nominee and, if nominated and elected, will serve as a director. The Committee will consider such candidates using the same screening criteria as are applied to all other potential nominees for election, provided that the shareholder nominations are submitted in a timely and complete manner, under the requirements of the Securities and Exchange Commission and the Company's By-laws, as they may be amended from time to time.]
6. As necessary in the Committee's judgment from time to time, retain and compensate third party search firms to assist in identifying or evaluating potential nominees to the Board.
7. Evaluate and recommend termination of membership of individual directors in accordance with the Board of Directors' governance principles, for cause or for other appropriate reasons.
8. Evaluate and consider matters relating to the qualifications of directors.
9. Annually review and reassess the adequacy of the corporate governance guidelines of the Company and recommend any proposed changes to the Board for approval.
10. Oversee the annual process of performance evaluations of the Company's management.
11. Oversee the process of succession planning for the Chief Executive Officer and, as warranted, other senior officers of the Company.
12. Develop, adopt and oversee the implementation of a Code of Corporate Conduct and Ethics for all directors, executive officers and employees of the Company.

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13. Review and maintain oversight of matters relating to the independence of Board and committee members, keeping in mind the independence standards of the Sarbanes-Oxley Act of 2002 and the rules of the American Stock Exchange.
14. Oversee and assess the effectiveness of the relationship between the Board and Company management.

15. Form and delegate authority to subcommittees when appropriate.
16. Make regular reports to the Board concerning its activities.
17. Annually review and reassess the adequacy of this Charter and recommend any proposed changes to the Board of Directors for approval.
18. Annually evaluate its own performance.
19. Fulfill such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board and/or the Chairman of the Board.

END OF APPENDIX B

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*[proxy card front]*

**PALATIN TECHNOLOGIES, INC.**  
4C CEDAR BROOK DRIVE, CRANBURY, NEW JERSEY 0812

ANNUAL MEETING OF STOCKHOLDERS - DECEMBER 9, 2004  
**THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS**

The undersigned appoints Carl Spana, Ph.D. and Stephen T. Wills (each with full power to act without the other) as proxy holders with full power of substitution, to vote all shares of common stock and Series A Convertible Preferred Stock of Palatin Technologies, Inc., a Delaware corporation, held of record by the undersigned as of October 28, 2004 at Palatin's special meeting of stockholders to be held Thursday, December 9, 2004 and at any postponement or adjournment of the meeting.

(To Be Signed on Reverse Side.)

*[proxy card reverse]*

Please mark your votes as in this example: |X|

**THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2 AND 3.**

**PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VOTE IN BLUE OR BLACK INK AS SHOWN HERE [X]**



FOR all nominees listed at right (except as indicated otherwise below)

WITHHOLD AUTHORITY to vote for all the nominees listed at right

1. ELECTION OF DIRECTORS.

- Nominees:
- Carl Spana, Ph.D.
  - John K.A. Prendergast, Ph.D.
  - Perry B. Molinoff, M.D.
  - Robert K. deVeer, Jr.
  - Zola P. Horovitz, Ph.D.
  - Robert I. Taber, Ph.D.
  - Errol De Souza, Ph.D.

FOR ALL EXCEPT (See instructions below)

**INSTRUCTION:** To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle next to each nominee you wish to withhold, as shown here: 0

2. To ratify the appointment of KPMG LLP as Palatin s independent auditors for the fiscal year ending June 30, 2005.

FOR  AGAINST  ABSTAIN

3. To approve an amendment to the 1996 Stock Option Plan increasing the common stock available for issuance from 5,000,000 to 7,500,000 shares.

FOR  AGAINST  ABSTAIN

4. In their discretion, the proxy holders are authorized to vote upon such other matters as may properly come before the meeting or any postponement or adjournment of the meeting.

The proxy holders will vote the shares of the undersigned stockholder as instructed above. If the stockholder does not specify a choice, the proxy holders will vote the

shares FOR proposals no. 1, 2 and 3 and on any other matter coming before the meeting in the discretion of the proxy holders.

The undersigned revokes any proxy previously given to vote or act with respect to such shares and ratifies and confirms all actions which the proxy holders or their substitutes may lawfully do in accordance with the instructions on this proxy card.

Please complete, sign, date and return this proxy card in the enclosed envelope. No postage is required if mailed in the United States.

SIGNATURE(S) \_\_\_\_\_ DATE \_\_\_\_\_, 2004

SIGNATURE(S) \_\_\_\_\_ DATE \_\_\_\_\_, 2004

NOTE: Please date this proxy card and sign your name exactly as it appears on the label. When there is more than one owner, each should sign. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guardian, please give your full title. If executed by a corporation, this proxy card should be signed by a duly authorized officer. If a partnership, please sign in partnership name by an authorized person. Please note any changes in your address alongside the address as it appears on the proxy card.

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APPENDIX C: 1996 STOCK OPTION PLAN

This Appendix C is filed pursuant to Schedule 14A, Item 10, Instruction 3. It is not part of the proxy statement.

PALATIN TECHNOLOGIES, INC.  
1996 STOCK OPTION PLAN

1. PURPOSE.

The purposes of the 1996 Stock Option Plan (the "Plan") are to induce certain employees, consultants and directors to remain in the employ or service, or to continue to serve as directors, of Palatin Technologies, Inc. (the "Company") and its present and future subsidiary corporations (each a "Subsidiary"), as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to attract new individuals to enter into such employment or service and to encourage such individuals to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company (the "Board") believes that the granting of stock options (the "Options") under the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success. Options granted hereunder are intended to be either (a) "incentive stock options" (which term, when used herein, shall have the meaning ascribed thereto by the provisions of Section 422(b) of the Code) or (b) options which are not incentive stock options ("non-incentive stock options") or (c) a combination thereof, as determined by the Committee (the "Committee") referred to in Section 4 hereof at the time of the grant thereof.

2. EFFECTIVE DATE OF THE PLAN.

The Plan became effective on August 28, 1996, by action of the Board, subject to ratification by stockholders of the Company.

3. STOCK SUBJECT TO PLAN.

5,000,000 of the authorized but unissued shares of the Common Stock, \$0.01 par value, of the Company (the "Common Stock") are hereby reserved for issue upon the exercise of Options granted under the Plan; provided, however, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Common Stock are purchased by the Company and set aside for issue upon the exercise of Options. If any Options expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.

