

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.

(Name of Registrant as Specified In Its Charter)

(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:

2) Aggregate number of securities to which transaction applies:

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):

4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

[PALATIN LOGO OMITTED]

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

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS

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

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

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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

-
- (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. 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.

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. 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]

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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)

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

(2a) Bonus earned and paid in fiscal year 2004.

(2b)