PALATIN TECHNOLOGIES INC
Form 10-Q
February 12, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2017

or

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

For the transition period from _____ to _____

Commission file number: 001-15543

_____

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

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

(609) 495-2200
(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) for the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of February 9, 2018, 195,373,239 shares of the registrant’s common stock, par value $0.01 per share, were outstanding.

PALATIN TECHNOLOGIES, INC.
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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

In this Quarterly Report on Form 10-Q, references to “we”, “our”, “us” or “Palatin” means Palatin Technologies, Inc. and its subsidiary.

Statements in this Quarterly Report on Form 10-Q, as well as oral statements that may be made by us or by our officers, directors, or employees acting on our behalf, that are not historical facts constitute “forward-looking statements”, which are made pursuant to the safe harbor provisions of Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”). The forward-looking statements in this Quarterly Report on Form 10-Q do not constitute guarantees of future performance. Investors are cautioned that statements that are not strictly historical statements contained in this Quarterly Report on Form 10-Q, including, without limitation, the following are forward looking statements:

estimates of our expenses, future revenue and capital requirements;

our ability to obtain additional financing on terms acceptable to us, or at all;

our ability to advance product candidates into, and successfully complete, clinical trials;

the initiation, timing, progress and results of future preclinical studies and clinical trials, and our research and development programs;

the timing or likelihood of regulatory filings and approvals;

our expectations regarding completion of required clinical trials and studies and validation of methods and controls used to manufacture bremelanotide for the treatment of premenopausal women with hypoactive sexual desire disorder (“HSDD”), which is a type of female sexual dysfunction (“FSD”);

our expectation regarding the timing of our regulatory submissions for approval of bremelanotide for HSDD in the United States and in certain other jurisdictions outside the United States;

our expectation regarding performance of our exclusive licensees of bremelanotide, including;
- AMAG Pharmaceuticals, Inc. (“AMAG”) for North America,
- Shanghai Fosun Pharmaceutical Industrial Development Co. Ltd. (“Fosun”), a subsidiary of Shanghai Fosun Pharmaceutical (Group) Co., Ltd. for the territories of mainland China, Taiwan, Hong Kong S.A.R. and Macau S.A.R., and
- Kwangdong Pharmaceutical Co., Ltd. (“Kwangdong”) for the Republic of Korea;

the potential for commercialization of bremelanotide for HSDD in North America by AMAG and other product candidates, if approved, by us;

our expectations regarding the potential market size and market acceptance for bremelanotide for HSDD and our other product candidates, if approved for commercial use;

our ability to compete with other products and technologies similar to our product candidates;

the ability of our third-party collaborators to timely carry out their duties under their agreements with us;

the ability of our contract manufacturers to perform their manufacturing activities for us in compliance with applicable regulations;

our ability to recognize the potential value of our licensing arrangements with third parties;

the potential to achieve revenues from the sale of our product candidates;

our ability to obtain adequate reimbursement from Medicare, Medicaid, private insurers and other healthcare payers;

our ability to maintain product liability insurance at a reasonable cost or in sufficient amounts, if at all;

the retention of key management, employees and third-party contractors;

the scope of protection we are able to establish and maintain for intellectual property rights covering our product candidates and technology;

our compliance with federal and state laws and regulations;

the timing and costs associated with obtaining regulatory approval for our product candidates;

the impact of fluctuations in foreign exchange rates;

the impact of legislative or regulatory healthcare reforms in the United States;

our ability to adapt to changes in global economic conditions; and

our ability to remain listed on the NYSE American stock exchange.

Such forward-looking statements involve risks, uncertainties and other factors that could cause our actual results to be materially different from historical results or from any results expressed or implied by such forward-looking statements. Our future operating results are subject to risks and uncertainties and are dependent upon many factors, including, without limitation, the risks identified in this report, in our Annual Report on Form 10-K for the year ended June 30, 2017, and in our other Securities and Exchange Commission ("SEC") filings.

We expect to incur losses in the future as a result of spending on our planned development programs and results may fluctuate significantly from quarter to quarter.

Palatin Technologies® is a registered trademark of Palatin Technologies, Inc.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

PALATIN
TECHNOLOGIES,
INC.
and Subsidiary
Consolidated
Balance Sheets
(unaudited)

	December 31, 2017	June 30, 2017
ASSETS		
Current assets:		
Cash and cash equivalents	$34,958,048	$40,200,324
Available-for-sale investments	-	249,837
Accounts receivable	-	15,116,822
Prepaid expenses and other current assets	1,288,504	1,011,221
Total current assets	36,246,552	56,578,204
Property and equipment, net	178,767	198,153
Other assets	556,916	56,916
Total assets	$36,982,235	$56,833,273
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIENCY)		
Current liabilities:		
Accounts payable	$703,767	$1,551,367
Accrued expenses	5,527,776	10,521,098
Notes payable, net of discount and debt issuance costs	7,889,152	7,824,935
Capital lease obligations	-	14,324
Deferred revenue	9,548,228	35,050,572
Total current liabilities	23,668,923	54,962,296
Notes payable, net of discount and debt issuance costs	2,321,124	6,281,660
Deferred revenue	500,000	-
Other non-current liabilities	866,135	753,961
Total liabilities	27,356,182	61,997,917
Stockholders' equity (deficiency):		

Preferred stock of $0.01 par value – authorized 10,000,000 shares:		
Series A Convertible: issued and outstanding 4,030 shares as of December 31, 2017 and June 30, 2017	40	40
Common stock of $0.01 par value – authorized 300,000,000 shares:		
issued and outstanding 195,373,239 shares as of December 31, 2017 and 160,515,361 shares as of June 30, 2017, respectively	1,953,732	1,605,153
Additional paid-in capital	350,787,078	349,974,538
Accumulated other comprehensive loss	-	(590)
Accumulated deficit	(343,114,797)	(356,743,785)
Total stockholders' equity (deficiency)	9,626,053	(5,164,644)
Total liabilities and stockholders' equity (deficiency)	$36,982,235	$56,833,273

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

PALATIN TECHNOLOGIES, INC.
and Subsidiary
Consolidated Statements of Operations
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
REVENUES:				
License and contract revenue	$10,612,153	$-	$37,553,661	$-
OPERATING EXPENSES:				
Research and development	6,045,884	8,134,575	20,208,981	19,360,659
General and administrative	1,625,189	1,306,300	3,169,764	2,515,646
Total operating expenses	7,671,073	9,440,875	23,378,745	21,876,305
Income (Loss) from operations	2,941,080	(9,440,875)	14,174,916	(21,876,305)
OTHER INCOME (EXPENSE):				
Interest income	81,356	5,991	133,082	12,636
Interest expense	(391,363)	(594,535)	(848,040)	(1,218,520)
Total other expense, net	(310,007)	(588,544)	(714,958)	(1,205,884)
Income (Loss) before income taxes	2,631,073	(10,029,419)	13,459,958	(23,082,189)
Income tax benefit, net	399,120	-	173,865	-
NET INCOME (LOSS)	$3,030,193	$(10,029,419)	$13,633,823	$(23,082,189)
Basic net income (loss) per common share	$0.02	$(0.06)	$0.07	$(0.13)
Diluted net income (loss) per common share	$0.01	$(0.06)	$0.07	$(0.13)
Weighted average number of common shares outstanding used in computing basic net income (loss) per common share	197,238,056	177,798,511	197,175,316	171,823,390
Weighted average number of common shares outstanding used in computing diluted net income (loss)	202,711,616	177,798,511	200,430,824	171,823,390

per common share

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

PALATIN TECHNOLOGIES, INC.

and Subsidiary

Consolidated Statements of Comprehensive Income (Loss)

(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss)	$3,030,193	$(10,029,419)	$13,633,823	$(23,082,189)
Other comprehensive income (loss):				
Unrealized gain (loss) on available-for-sale investments	153	515	590	(62)
Total comprehensive income (loss)	$3,030,346	$(10,028,904)	$13,634,413	$(23,082,251)

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

PALATIN TECHNOLOGIES, INC.

and Subsidiary

Consolidated Statements of Cash Flows

(unaudited)

	Six Months Ended December 31,	
	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$13,633,823	$(23,082,189)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	28,886	15,261
Non-cash interest expense	104,108	160,711
Stock-based compensation	1,041,900	853,241
Deferred income tax benefit	(500,000)	-
Changes in operating assets and liabilities:		
Accounts receivable	15,116,822	-
Prepaid expenses and other assets	(277,283)	481,877
Accounts payable	(847,600)	3,992,124
Accrued expenses	(4,968,942)	(320,908)
Deferred revenue	(25,002,344)	-
Other non-current liabilities	112,174	168,358
Net cash used in operating activities	(1,558,456)	(17,731,525)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from matured investments	250,000	-
Purchases of property and equipment	(9,500)	-
Net cash provided by investing activities	240,500	-
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(14,324)	(13,534)

Payment of withholding taxes related to restricted stock units	(24,380)	-
Payment on notes payable obligations	(4,000,000)	(2,000,000)
Proceeds from the exercise of warrants	114,384	-
Proceeds from the sale of common stock and warrants, net of costs	-	23,856,972
Net cash (used in) provided by financing activities	(3,924,320)	21,843,438
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(5,242,276)	4,111,913
CASH AND CASH EQUIVALENTS, beginning of period	40,200,324	8,002,668
CASH AND CASH EQUIVALENTS, end of period	$34,958,048	$12,114,581
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	$632,185	$891,717
Unrealized gain (loss) on available-for-sale investments	590	(62)
Non-cash equity financing costs in accrued expenses	-	50,861

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

PALATIN TECHNOLOGIES, INC.
and Subsidiary

Notes to Consolidated Financial Statements
(unaudited)

(1)
ORGANIZATION:

Nature of Business – Palatin Technologies, Inc. (“Palatin” or the “Company”) is a biopharmaceutical company developing targeted, receptor-specific peptide therapeutics for the treatment of diseases with significant unmet medical need and commercial potential. Palatin’s programs are based on molecules that modulate the activity of the melanocortin and natriuretic peptide receptor systems. The melanocortin system is involved in a large and diverse number of physiologic functions, and therapeutic agents modulating this system may have the potential to treat a variety of conditions and diseases, including sexual dysfunction and inflammation-related diseases. The natriuretic peptide receptor system has numerous cardiovascular functions, and therapeutic agents modulating this system may be useful in treatment of heart failure and other cardiovascular diseases.

The Company’s primary product in development is bremelanotide for the treatment of hypoactive sexual desire disorder (“HSDD”), which is a type of female sexual dysfunction (“FSD”). The Company also has drug candidates or development programs for cardiovascular diseases, including heart failure and fibrosis, and inflammatory diseases, including inflammatory bowel disease and ocular indications.

Key elements of the Company’s business strategy include using its technology and expertise to develop and commercialize therapeutic products; entering into alliances and partnerships with pharmaceutical companies to facilitate the development, manufacture, marketing, sale and distribution of product candidates that the Company is developing; and partially funding its product candidate development programs with the cash flow generated from its relationships with third parties.

Business Risk and Liquidity – Since inception, the Company has incurred negative cash flows from operations, and has expended, and expects to continue to expend, substantial funds to complete its planned product development efforts. As shown in the accompanying consolidated financial statements, the Company had an accumulated deficit as of December 31, 2017 of $343,614,797 and had net income for the three and six months ended December 31, 2017 of $2,530,193 and $13,133,823, respectively. The Company anticipates incurring losses in the future as a result of spending on its development programs and will require substantial additional financing to continue to fund its planned developmental activities. To achieve sustained profitability, if ever, the Company, alone or with others, must successfully develop and commercialize its technologies and proposed products, conduct successful preclinical studies and clinical trials, obtain required regulatory approvals and successfully manufacture and market such technologies and proposed products. The time required to reach sustained profitability is highly uncertain, and the Company may never be able to achieve profitability on a sustained basis, if at all.

On November 21, 2017, the Company entered into a license agreement with Kwangdong for exclusive rights to develop and commercialize bremelanotide in the Republic of Korea. (“License Agreement with Kwangdong”) (Note 7).

As of December 31, 2017, the Company’s cash and cash equivalents were $34,958,048 and current liabilities were $14,120,695, net of deferred revenue of $9,548,228. The Company intends to utilize existing capital resources for general corporate purposes and working capital, including the preparation of and filing a New Drug Application (“NDA”) on bremelanotide for HSDD with the U.S. Food and Drug Administration (“FDA”), and preclinical and clinical development of the Company’s other product candidates and programs, including natriuretic peptide receptor and melanocortin receptor programs.

Management believes that its existing capital resources will be sufficient to fund its planned operations through at least one year after the date that these financial statements are issued. The Company will need additional funding to complete required clinical trials for its other product candidates and, assuming those clinical trials are successful, as to which there can be no assurance, to complete submission of required applications to the FDA. If the Company is unable to obtain approval or otherwise advance in the FDA approval process, the Company's ability to sustain its operations would be materially adversely affected.

The Company may seek the additional capital necessary to fund its operations through public or private equity offerings, collaboration agreements, debt financings or licensing arrangements. Additional capital that is required by the Company may not be available on reasonable terms, or at all.

Concentrations – Concentrations in the Company's assets and operations subject it to certain related risks. Financial instruments that subject the Company to concentrations of credit risk primarily consist of cash and cash equivalents, accounts receivable and investments. The Company's cash and cash equivalents are primarily invested in one money market account sponsored by a large financial institution. For the three and six months ended December 31, 2017, the Company reported $10,612,153 and $32,553,661, respectively, in license and contract revenue related to a license agreement with AMAG for bremelanotide for North America ("License Agreement with AMAG") (Note 5). In addition, for the six months ended December 31, 2017, the Company reported $5,000,000 in license revenue related to a license agreement with Fosun for bremelanotide for China and certain other Asian territories ("License Agreement with Fosun") (Note 6). The Company did not generate any revenue for the three and six months ended December 31, 2016.

PALATIN TECHNOLOGIES, INC.
and Subsidiary

Notes to Consolidated Financial Statements
(unaudited)

(2)
BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim financial information and with the instructions to Form 10-Q. Accordingly, they do not include all of the information and footnote disclosures required to be presented for complete financial statements. In the opinion of management, these consolidated financial statements contain all adjustments (consisting of normal recurring adjustments) considered necessary for fair presentation. The results of operations for the three and six months ended December 31, 2017 may not necessarily be indicative of the results of operations expected for the full year.

The accompanying consolidated financial statements should be read in conjunction with the audited consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 2017, filed with the SEC, which includes consolidated financial statements as of June 30, 2017 and 2016 and for each of the fiscal years in the three-year period ended June 30, 2017.

(3)
SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

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

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

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, cash in banks and all highly liquid investments with a purchased maturity of less than three months. Cash equivalents consist of $34,769,696 and $40,019,336 in a money market account as of December 31, 2017 and June 30, 2017, respectively.

Investments – The Company determines the appropriate classification of its investments in debt and equity securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities are classified as held-to-maturity when the Company has the intent and ability to hold the securities to maturity. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale. Held-to-maturity securities are recorded as either short-term or long-term on the balance sheet, based on the contractual maturity date and are stated at amortized cost. Marketable securities that are bought and held principally for the purpose of selling them in the near term are classified as trading securities and are reported at fair value, with unrealized gains and losses recognized in earnings. Debt and marketable equity securities not classified as held-to-maturity or as trading are classified as available-for-sale and are carried at fair market value, with the unrealized gains and losses, net of tax, included in the determination of other comprehensive income (loss).

The fair value of substantially all securities is determined by quoted market prices. The estimated fair value of securities for which there are no quoted market prices is based on similar types of securities that are traded in the

market.

Fair Value of Financial Instruments – The Company's financial instruments consist primarily of cash equivalents, accounts receivable, accounts payable and notes payable. Management believes that the carrying values of cash equivalents, accounts receivable, available-for-sale investments and accounts payable are representative of their respective fair values based on the short-term nature of these instruments. Management believes that the carrying amount of its notes payable approximates fair value based on the terms of the notes.

Credit Risk – Financial instruments which potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. Total cash and cash equivalent balances have exceeded balances insured by the Federal Depository Insurance Company.

Property and Equipment – Property and equipment consists of office and laboratory equipment, office furniture and leasehold improvements and includes assets acquired under capital leases. Property and equipment are recorded at cost. Depreciation is recognized using the straight-line method over the estimated useful lives of the related assets, generally five years for laboratory and computer equipment, seven years for office furniture and equipment and the lesser of the term of the lease or the useful life for leasehold improvements. Amortization of assets acquired under capital leases is included in depreciation expense. Maintenance and repairs are expensed as incurred while expenditures that extend the useful life of an asset are capitalized. Accumulated depreciation and amortization was $2,310,875 and $2,281,989 as of December 31, 2017 and June 30, 2017, respectively.

PALATIN TECHNOLOGIES, INC.
and Subsidiary

Notes to Consolidated Financial Statements
(unaudited)

Impairment of Long-Lived Assets – The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of the assets may not be fully recoverable. To determine recoverability of a long-lived asset, management evaluates whether the estimated future undiscounted net cash flows from the asset are less than its carrying amount. If impairment is indicated, the long-lived asset would be written down to fair value. Fair value is determined by an evaluation of available price information at which assets could be bought or sold, including quoted market prices, if available, or the present value of the estimated future cash flows based on reasonable and supportable assumptions.

Revenue Recognition – The Company has generated revenue solely through license and collaboration agreements. The Company recognizes revenue in accordance with Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 605-25, Revenue Recognition for Arrangements with Multiple Elements, which addresses the determination of whether an arrangement involving multiple deliverables contains more than one unit of accounting. A delivered item within an arrangement is considered a separate unit of accounting only if both of the following criteria are met:

the delivered item has value to the customer on a stand-alone basis; and

if the arrangement includes a general right of return relative to the delivered item, delivery or performance of the undelivered item is considered probable and substantially in control of the vendor.

Under FASB ASC Topic 605-25, if both of the criteria above are not met, then separate accounting for the individual deliverables is not appropriate.

The Company has determined that it is appropriate to recognize the consideration received under its License Agreement with AMAG as revenue using the input-based proportional method during the period of the Palatin Development Obligation as defined in the License Agreement with AMAG. Refer to Note 5 for additional information on this topic.

Under its License Agreement with Fosun (Note 6), the Company received consideration in the form of an upfront license fee payment and determined that it was appropriate to recognize such consideration as revenue in the first quarter of 2018, which was the quarter in which the license was granted, since the license has stand-alone value and the upfront payment received by the Company is non-refundable.

Under its License Agreement with Kwangdong (Note 7), the Company received consideration in the form of an upfront license fee payment and has currently determined that it is appropriate to record such consideration as non-current deferred revenue because the upfront payment received by the Company is subject to certain refund provisions.

Revenue resulting from the achievement of development milestones is recorded in accordance with the accounting guidance for the milestone method of revenue recognition.

Amounts received prior to satisfying the revenue recognition criteria are recorded as deferred revenue on the Company's consolidated balance sheet. Amounts expected to be recognized as revenue in the next 12 months following the balance sheet date are classified as current liabilities.

Research and Development Costs – The costs of research and development activities are charged to expense as incurred, including the cost of equipment for which there is no alternative future use.

Accrued Expenses – Third parties perform a significant portion of the Company's development activities. The Company reviews the activities performed under all contracts each quarter and accrue expenses and the amount of any reimbursement to be received from collaborators based upon the estimated amount of work completed. Estimating the value or stage of completion of certain services requires judgment based on available information. If the Company does not identify services performed but not billed by the service-provider, or if the Company underestimates or overestimates the value of services performed as of a given date, reported expenses will be understated or overstated.

Stock-Based Compensation – The Company charges to expense the fair value of stock options and other equity awards granted. The Company determines the value of stock options utilizing the Black-Scholes option pricing model. Compensation costs for share-based awards with pro-rata vesting are determined using the quoted market price of the Company's common stock on the date of grant and allocated to periods on a straight-line basis, while awards containing a market condition and performance conditions are valued using multifactor Monte Carlo simulations.

PALATIN TECHNOLOGIES, INC.
and Subsidiary

Notes to Consolidated Financial Statements
(unaudited)

Income Taxes – The Company and its subsidiary file consolidated federal and separate-company state income tax returns. Income taxes are accounted for under the asset and liability method. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of assets and liabilities and their respective tax basis and operating loss and tax credit carryforwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences or operating loss and tax credit carryforwards are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in the period that includes the enactment date. The Company has recorded a valuation allowance against its deferred tax assets based on the history of losses incurred.

Pursuant to the License Agreement with Fosun (Note 6) and the License Agreement with Kwangdong (Note 7), $500,000 and $82,500, respectively, was withheld in accordance with tax withholding requirements in China and the Republic of Korea, respectively, and will be recorded as an expense during the fiscal year ending June 30, 2018. For the three and six months ended December 31, 2017, the Company incurred $100,880 and $326,135, respectively, in income tax expense and the remaining balance of $256,365 was included in prepaid expenses and other current assets at December 31, 2017. Any potential credit to be received by the Company on its United States tax returns is currently offset by the Company’s valuation allowance.

On December 22, 2017, the U.S. government enacted wide-ranging tax legislation, the Tax Cuts and Jobs Act (the "2017 Tax Act"). The 2017 Tax Act significantly revises U.S. tax law by, among other provisions, (a) lowering the applicable U.S. federal statutory corporate income tax rate from 35% to 21%, (b) eliminating or reducing certain income tax deductions, such as deductions for interest expense, executive compensation expenses and certain employee expenses, and (c) repealing the federal alternative minimum tax ("AMT") and providing for the refund of existing AMT credits.

As a result of the 2017 tax Act, during the quarter ended December 31, 2017, the Company recorded a tax benefit of $500,000 related to the release of a valuation allowance against an AMT credit; accordingly $500,000 is included in Other long-term assets at December 31, 2017. In addition, as a result of the enactment of the new corporate income tax rate, the Company remeasured certain deferred tax assets and liabilities based on the rates at which they are expected to reverse and with the exception of the AMT credit, the Company continues to maintain a full valuation allowance against its net deferred tax assets.

Net Income (Loss) per Common Share – Basic and diluted earnings per common share (“EPS”) are calculated in accordance with the provisions of FASB ASC Topic 260, “Earnings per Share,” which includes guidance pertaining to the warrants issued in connection with the July 3, 2012, December 23, 2014, and July 2, 2015 private placement offerings and the August 4, 2016 underwritten offering, that were exercisable for nominal consideration and, therefore, to the extent not yet exercised are considered in the computation of basic and diluted net loss per common share. As of December 31, 2017, all warrants exercisable for nominal value have been converted into common stock.

The following table is a reconciliation of net income (loss) and the shares used in calculating basic and diluted net income (loss) per common share for the three and six months ended December 30, 2017 and 2016:

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PALATIN TECHNOLOGIES, INC.
and Subsidiary

Notes to Consolidated Financial Statements
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2017	2016	2017	2016
Net income (loss)	$3,030,193	$(10,029,419)	$13,633,823	$(23,082,189)
Denominator:				
Weighted average common shares outstanding - Basic	197,238,056	177,798,511	197,175,316	171,823,390
Effect of dilutive shares:				
Common stock equivalents arising from stock options, warrants and conversion of preferred stock	3,525,013	-	1,792,803	-
Restricted stock units	1,948,547	-	1,462,705	-
Weighted average common shares outstanding - Diluted	202,711,616	177,798,511	200,430,824	171,823,390
Net income (loss) per common share:				
Basic	$0.02	$(0.06)	$0.07	$(0.13)
Diluted	$0.01	$(0.06)	$0.07	$(0.13)

For the three and six months ended December 31, 2017 and 2016, common shares issuable upon conversion of Series A Convertible Preferred Stock, the exercise of outstanding options and warrants (excluding the Series A 2012, Series B 2012, Series C 2014, Series E 2015 and Series I 2016 warrants issued in connection with the July 3, 2012, December 23, 2014, and July 2, 2015 private placement offerings and the August 4, 2016 underwritten offering as such warrants, to the extent not yet exercised, are already included in the weighted average number of common shares outstanding used in computing basic net income (loss) per common share since they are exercisable for nominal consideration), and the vesting of restricted stock units amounted to an aggregate of 46,966,803 and 57,174,473 shares, respectively, and are excluded from the weighted average number of common shares outstanding used in computing basic net income (loss) per common share. For the three and six months ended December 31, 2017, an additional 5,473,560 and 3,255,508 of common shares, respectively, have been included in the computation of diluted EPS using the treasury stock and if-converted methods. However, for the three and six months ended December 31, 2016, no additional common shares were added in the computation of diluted EPS because to do so would have been anti-dilutive.

(4)
NEW AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

In May 2017, the FASB issued ASU No. 2017-09, Compensation-Stock Compensation (Topic 718): Scope of Modification Accounting, which clarifies when to account for a change to the terms or conditions of a share-based

payment award as a modification. Under the new guidance, modification accounting is required only if the fair value, the vesting conditions, or the classification of the award (as equity or liability) changes as a result of the change in terms or conditions. It is effective prospectively for the annual period ending June 30, 2019 and interim periods within that annual period. Early adoption is permitted. The Company is currently evaluating the effect that ASU No. 2017-09 will have on its consolidated financial statements and related disclosures.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments, which requires measurement and recognition of expected credit losses for financial assets held at the reporting date based on historical experience, current conditions, and reasonable and supportable forecasts. This is different from the current guidance as this will require immediate recognition of estimated credit losses expected to occur over the remaining life of many financial assets. The new guidance will be effective for the Company on July 1, 2020. Early adoption will be available on July 1, 2019. The Company is currently evaluating the effect that ASU No. 2016-13 will have on its consolidated financial statements and related disclosures.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Improvements to Employee Share-Based Payment Accounting, which amends the current guidance related to stock compensation. The updated guidance changes how companies account for certain aspects of share-based payment awards to employees, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. Under this guidance, on a prospective basis, companies will no longer be able to record excess tax benefits and certain tax deficiencies as additional paid-in capital. Instead, companies will record all excess tax benefits and tax deficiencies as income tax expense or benefit in the income statement. In addition, the guidance eliminates the requirement that excess tax benefits be realized before companies can recognize them. The ASU requires a cumulative-effect adjustment for previously unrecognized excess tax benefits in opening retained earnings in the period of adoption. Effective July 1, 2017, the Company adopted this updated guidance and elected to recognize forfeitures when they occur using a modified retrospective approach. The adoption of ASU No. 2016-09 did not have a material impact on the Company’s consolidated financial statements.

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In February 2016, the FASB issued ASU No. 2016-02, Leases, related to the recognition of lease assets and lease liabilities. The new guidance requires lessees to recognize almost all leases on their balance sheet as a right-of-use asset and a lease liability, other than leases that meet the definition of a short– term lease, and requires expanded disclosures about leasing arrangements. The recognition, measurement, and presentation of expenses and cash flows arising from a lease have not significantly changed from the current guidance. Lessor accounting is similar to the current guidance, but updated to align with certain changes to the lessee model and the new revenue recognition standard. The new guidance is effective for the Company on July 1, 2019, with early adoption permitted. The Company is evaluating the impact that ASU No. 2016-02 will have on its consolidated financial statements and related disclosures.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments: Recognition and Measurement of Financial Assets and Financial Liabilities. The new guidance relates to the recognition and measurement of financial assets and liabilities. The new guidance makes targeted improvements to U.S. GAAP impacting equity investments (other than those accounted for under the equity method or consolidated), financial liabilities accounted for under the fair value election, and presentation and disclosure requirements for financial instruments, among other changes. The new guidance is effective for the Company on July 1, 2018, with early adoption prohibited other than for certain provisions. The Company is evaluating the impact that ASU No. 2016-01 will have on its consolidated financial statements and related disclosures.

In November 2015, the FASB issued ASU No. 2015-17, Income Taxes: Balance Sheet Classification of Deferred Taxes, which simplifies the balance sheet classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the new guidance. Effective July 1, 2017, the Company adopted this updated guidance, which did not have a material impact on the Company’s financial position or results of operations because its net deferred tax assets were fully offset by a valuation allowance based on the history of losses incurred.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers, which requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In July 2015, the FASB voted to defer the effective date of the new standard until fiscal years beginning after December 15, 2017 with early application permitted for fiscal years beginning after December 15, 2016. With the deferral, the new standard is effective for the Company on July 1, 2018. In addition, in April 2016 the FASB issued ASU No. 2016-10, Identifying Performance Obligations and Licensing, which addresses various issues associated with identifying performance obligations, licensing of intellectual property, royalty considerations, and other matters. ASU No. 2016-10 is effective in connection with ASU No. 2014-09. The two permitted transition methods under ASU 2014-09 are the full retrospective method, in which case the new standard would be applied to each prior period presented and the cumulative effect of applying the standard would be recognized as of the earliest period reported, or the modified retrospective method, in which case the cumulative effect of applying the new standard would be recognized as of the date of initial application. The Company is currently evaluating the impact that the implementation of this standard will have on the Company’s consolidated financial statements, including performing an assessment of the impact of the new standard on its collaboration arrangements with third parties.

AGREEMENT WITH AMAG:

On January 8, 2017, the Company entered into the License Agreement with AMAG. Under the terms of the License Agreement with AMAG, the Company granted to AMAG (i) an exclusive license in all countries of North America (the "Territory"), with the right to grant sub-licenses, to research, develop and commercialize products containing bremelanotide (each a "Product," and collectively, "Products"), (ii) a non-exclusive license in the Territory, with the right to grant sub-licenses, to manufacture Products, and (iii) a non-exclusive license in all countries outside the Territory, with the right to grant sub-licenses, to research, develop and manufacture (but not commercialize) the Products.

Following the satisfaction of certain conditions to closing, the License Agreement with AMAG became effective on February 2, 2017. On that date, AMAG paid the Company $60,000,000 as a one-time initial payment. Pursuant to the terms of and subject to the conditions in the License Agreement with AMAG, AMAG is required to reimburse the Company up to an aggregate amount of $25,000,000 for reasonable, documented, direct out-of-pocket expenses incurred by the Company following February 2, 2017, in connection with the development and regulatory activities necessary to file an NDA for bremelanotide for HSDD in the United States related to Palatin's development obligations.

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The Company has determined there is no stand-alone value for the license, and that the license and the reimbursable direct out-of-pocket expenses, pursuant to the terms of the License Agreement with AMAG, represent a combined unit of accounting which totals $85,000,000. The Company is recognizing revenue of the combined unit of accounting over the arrangement using the input-based proportional method as the Company completes its development obligations. For the three and six months ended December 31, 2017, the Company recognized $10,612,153 and $32,553,661, respectively, as license and contract revenue related to this transaction. As of December 31, 2017 and June 30, 2017, there was $9,548,228 and $35,050,572, respectively, of current deferred revenue on the consolidated balance sheet related to this transaction.

In addition, pursuant to the terms of and subject to the conditions in the License Agreement with AMAG, the Company is eligible to receive from AMAG: (i) up to $80,000,000 in specified regulatory payments upon achievement of certain regulatory milestones, and (ii) up to $300,000,000 in sales milestone payments based on achievement of annual net sales amounts for all Products in the Territory.

AMAG is also obligated to pay the Company tiered royalties on annual net sales of Products, on a product-by-product basis, in the Territory ranging from the high single-digits to the low double-digits. The royalties will expire on a product-by-product and country-by-country basis until the latest to occur of (i) the earliest date on which there are no valid claims of the Company’s patent rights covering such Product in such country, (ii) the expiration of the regulatory exclusivity period for such Product in such country and (iii) ten years following the first commercial sale of such Product in such country. Such royalties are subject to reductions in the event that: (a) AMAG must license additional third party intellectual property in order to develop, manufacture or commercialize a Product, or (b) generic competition occurs with respect to a Product in a given country, subject to an aggregate cap on such deductions of royalties otherwise payable to the Company. After the expiration of the applicable royalties for any Product in a given country, the license for such Product in such country will become a fully paid-up, royalty-free, perpetual and irrevocable license.

The Company engaged Greenhill & Co. LLC (“Greenhill”) as the Company’s sole financial advisor in connection with a potential transaction with respect to bremelanotide. Under the engagement agreement with Greenhill, the Company was obligated to pay Greenhill a fee equal to 2% of all proceeds and consideration paid to the Company by AMAG in connection with the License Agreement with AMAG, subject to a minimum fee of $2,500,000. The minimum fee of $2,500,000, less credit of $50,000 for an advisory fee previously paid by the Company, was paid to Greenhill upon the closing of the licensing transaction. This amount will be credited toward amounts that become due to Greenhill in the future, provided that the aggregate fee payable to Greenhill will not be less than 2% of all proceeds and consideration paid to the Company by AMAG in connection with the License Agreement with AMAG. The Company will pay Greenhill an aggregate total of 2% of all proceeds and consideration paid to the Company by AMAG in connection with the License Agreement with AMAG, including future milestone and royalty payments, after crediting the $2,500,000 that was paid to Greenhill upon entering into the License Agreement with AMAG. The Company also reimbursed Greenhill $7,263 for certain expenses incurred in connection with its advisory services.

Pursuant to the License Agreement with AMAG, the Company has assigned to AMAG the Company’s manufacturing and supply agreements with Catalent Belgium S.A. to perform fill, finish and packaging of bremelanotide.

(6)
AGREEMENT WITH FOSUN:

On September 6, 2017, the Company entered into the License Agreement with Fosun for exclusive rights to commercialize bremelanotide in the territories of mainland China, Taiwan, Hong Kong S.A.R. and Macau S.A.R.

Under the terms of the agreement, the Company received $4,500,000 in October 2017, which consisted of an upfront payment of $5,000,000 less $500,000 which was withheld in accordance with tax withholding requirements in China and will be recorded as an expense during the fiscal year ending June 30, 2018. For the three and six months ended December 31, 2017, the Company incurred $54,712 and $279,967, respectively, in income tax expense utilizing an estimated effective annual income tax rate applied to income for the three and six months ended December 31, 2017 and the remaining balance of $220,033 was included in prepaid expenses and other current assets at December 31, 2017. The Company will receive a $7,500,000 milestone payment when regulatory approval in China is obtained, provided that a commercial supply agreement for bremelanotide has been entered into. Palatin has the potential to receive up to $92,500,000 in additional sales related milestone payments and high single-digit to low double-digit royalties on net sales in the licensed territory. All development, regulatory, sales, marketing, and commercial activities and associated costs in the licensed territory will be the sole responsibility of Fosun.

(7)
AGREEMENT WITH KWANGDONG:

On November 21, 2017, the Company entered into the License Agreement with Kwangdong for exclusive rights to commercialize bremelanotide in the Republic of Korea.

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Under the terms of the agreement, the Company received $417,500 in December 2017, consisting of an upfront payment of $500,000, less $82,500, which was withheld in accordance with tax withholding requirements in Korea and will be recorded as an expense during the fiscal year ending June 30, 2018. Based upon certain refund provisions, the upfront payment has been recorded as non-current deferred revenue at December 31, 2017. For the three and six months ended December 31, 2017, the Company incurred $46,168 in income tax expense utilizing an estimated effective annual income tax rate applied to income for the three and six months ended December 31, 2017 and the remaining balance of $36,332 was included in prepaid expenses and other current assets at December 31, 2017. The Company will receive a $3,000,000 milestone payment based on the first commercial sale in Korea. Palatin has the potential to receive up to $37,500,000 in additional sales related milestone payments and mid-single-digit to low double-digit royalties on net sales in the licensed territory. All development, regulatory, sales, marketing, and commercial activities and associated costs in the licensed territory will be the sole responsibility of Kwangdong.

(8)
PREPAID EXPENSES AND OTHER CURRENT ASSETS:

Prepaid expenses and other current assets consist of the following:

	December 31, 2017	June 30, 2017
Clinical costs	$753,614	$657,069
Insurance premiums	53,886	182,966
Foreign withholding tax (Notes 6 & 7)	256,365	-
Other	224,639	171,186
	$1,288,504	$1,011,221

(9)
INVESTMENTS:

The following summarizes the carrying value of the Company’s available-for-sale investments, which consist of corporate debt securities:

	December 31, 2017	June 30, 2017
Cost	$-	$262,023
Amortization of premium	-	(11,596)
Gross unrealized loss	-	(590)
Fair value	$-	$249,837

(10)
FAIR VALUE MEASUREMENTS:

The fair value of cash equivalents and investments is classified using a hierarchy prioritized based on inputs. Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities. Level 2 inputs are quoted prices for similar assets and liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on management's own assumptions used to measure assets and liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

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The following table provides the assets carried at fair value measured on a recurring basis:

	Carrying Value	Quoted prices in active markets (Level 1)	Other quoted/observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2017:				
Money market account	$34,769,696	$34,769,696	$-	$-
TOTAL	$34,769,696	$34,769,696	$-	$-
June 30, 2017:				
Money market account	$40,019,336	$40,019,336	$-	$-
Corporate debt securities	249,837	249,837	-	-
TOTAL	$40,269,173	$40,269,173	$-	$-

(11)
ACCRUED EXPENSES:

Accrued expenses consist of the following:

	December 31, 2017	June 30, 2017
Clinical costs	$5,055,378	$9,138,827
Other research related expenses	180,820	217,307
Professional services	51,732	434,768
Other	239,846	730,196
	$5,527,776	$10,521,098

(12)
NOTES PAYABLE:

Notes payable consist of the following:

	December 31, 2017	June 30, 2017

Notes payable under venture loan	$10,333,334	$14,333,334
Unamortized related debt discount	(78,564)	(143,524)
Unamortized debt issuance costs	(44,494)	(83,215)
Notes payable	10,210,276	14,106,595
Less: current portion	7,889,152	7,824,935
Long-term portion	$2,321,124	$6,281,660

On December 23, 2014, the Company closed on a $10,000,000 venture loan which was led by Horizon Technology Finance Corporation (“Horizon”). The debt facility is a four year senior secured term loan that bears interest at a floating coupon rate of one-month LIBOR (floor of 0.50%) plus 8.50%, and provides for interest-only payments for the first eighteen months followed by monthly payments of principal of $333,333 plus accrued interest through January 1, 2019. The lenders also received five-year immediately exercisable Series D 2014 warrants to purchase 666,666 shares of common stock exercisable at an exercise price of $0.75 per share. The Company recorded a debt discount of $267,820 equal to the fair value of these warrants at issuance, which is being amortized to interest expense over the term of the related debt. This debt discount is offset against the note payable balance and included in additional paid-in capital on the Company’s balance sheet at December 31, 2017 and June 30, 2017. In addition, a final incremental payment of $500,000 is due on January 1, 2019, or upon early repayment of the loan. This final incremental payment is being accreted to interest expense over the term of the related debt. The Company incurred $209,367 of costs in connection with the loan. These costs were capitalized as deferred financing costs and are offset against the note payable balance. These debt issuance costs are being amortized to interest expense over the term of the related debt.

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On July 2, 2015, the Company closed on a $10,000,000 venture loan led by Horizon. The debt facility is a four-year senior secured term loan that bears interest at a floating coupon rate of one-month LIBOR (floor of 0.50%) plus 8.50% and provides for interest-only payments for the first eighteen months followed by monthly payments of principal of $333,333 plus accrued interest through August 1, 2019. The lenders also received five-year immediately exercisable Series G warrants to purchase 549,450 shares of the Company's common stock exercisable at an exercise price of $0.91 per share. The Company has recorded a debt discount of $305,196 equal to the fair value of these warrants at issuance, which is being amortized to interest expense over the term of the related debt. This debt discount is offset against the note payable balance and is included in additional paid-in capital on the Company's balance sheet at December 31, 2017 and June 30, 2017. In addition, a final incremental payment of $500,000 is due on August 1, 2019, or upon early repayment of the loan. This final incremental payment is being accreted to interest expense over the term of the related debt. The Company incurred $146,115 of costs in connection with the loan agreement. These costs were capitalized as deferred financing costs and are offset against the note payable balance. These debt issuance costs are being amortized to interest expense over the term of the related debt.

The Company's obligations under the 2015 amended and restated loan agreement, which includes both the 2014 venture loan and the 2015 venture loan, are secured by a first priority security interest in substantially all of its assets other than its intellectual property. The Company also has agreed to specified limitations on pledging or otherwise encumbering its intellectual property assets. The 2015 amended and restated loan agreement include customary affirmative and restrictive covenants, but does not include any covenants to attain or maintain specified financial metrics. The loan agreement includes customary events of default, including payment defaults, breaches of covenants, change of control and a material adverse change default. Upon the occurrence of an event of default and following any applicable cure periods, a default interest rate of an additional 5% may be applied to the outstanding loan balances, and the lenders may declare all outstanding obligations immediately due and payable and take such other actions as set forth in the loan agreement. As of December 31, 2017, the Company was in compliance with all of its loan covenants.

(13)
STOCKHOLDERS' EQUITY (DEFICIENCY):

Financing Transactions – On December 6, 2016, the Company closed on an underwritten public offering of units, with each unit consisting of a share of common stock and a Series J warrant to purchase 0.50 of a share of common stock. Gross proceeds were $16,500,000, with net proceeds to the Company, after deducting underwriting discounts and commissions and offering expenses, of $15,386,075. The Company issued 25,384,616 shares of common stock and Series J warrants to purchase 12,692,310 shares of common stock at an initial exercise price of $0.80 per share, which warrants are exercisable immediately upon issuance and expire on the fifth anniversary of the date of issuance. The Series J warrants are subject to limitation on exercise if the holder and its affiliates would beneficially own more than 9.99%, or 4.99% for certain holders, of the total number of the Company's shares of common stock outstanding following such exercise.

On August 4, 2016, the Company closed on an underwritten offering of units, with each unit consisting of a share of common stock and a Series H warrant to purchase 0.75 of a share of common stock. Investors whose purchase of units in the offering would result in them beneficially owning more than 9.99% of the Company's outstanding common stock following the completion of the offering had the option to acquire units with Series I prefunded warrants substituted for any common stock they would have otherwise acquired. Gross proceeds were $9,225,000, with net

proceeds to the Company, after deducting offering expenses, of $8,470,897. The Company issued 11,481,481 shares of common stock and ten-year prefunded Series I warrants to purchase 2,218,045 shares of common stock at an exercise price of $0.01, together with Series H warrants to purchase 10,274,646 shares of common stock at an exercise price of $0.70 per share.

The Series I warrants were exercised during the fiscal year ended June 30, 2017. The Series H warrants are exercisable at an initial exercise price of $0.70 per share, are exercisable commencing six months following the date of issuance and expire on the fifth anniversary of the date of issuance. The Series H warrants are subject to a limitation on their exercise if the holder and its affiliates would beneficially own more than 9.99% of the total number of the Company’s shares of common stock outstanding following such exercise.

On July 2, 2015, the Company closed on a private placement of Series E warrants to purchase 21,917,808 shares of Palatin common stock and Series F warrants to purchase 2,191,781 shares of the Company’s common stock. Certain funds managed by QVT Financial LP (“QVT”) invested $5,000,000 and another accredited investment fund invested $15,000,000. The funds paid $0.90 for each Series E warrant and $0.125 for each Series F warrant, resulting in gross proceeds to the Company of $20,000,000, with net proceeds, after deducting offering expenses, of $19,834,278.

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The Series E warrants were exercisable immediately upon issuance at an initial exercise price of $0.01 per share. As of December 31, 2017, all of the Series E warrants have been exercised. The Series F warrants are exercisable at an initial exercise price of $0.91 per share, are exercisable immediately upon issuance and expire on the fifth anniversary of the date of issuance. The Series F warrants are subject to limitation on exercise if QVT and its affiliates would beneficially own more than 9.99% (4.99% for the other accredited investment fund holder) of the total number of the Company's shares of common stock outstanding following such exercise.

The purchase agreement for the private placement provides that the purchasers have certain rights until the earlier of approval of bremelanotide for FSD by the FDA and July 3, 2018, including rights of first refusal and participation in any subsequent equity or debt financing. The purchase agreement also contains certain restrictive covenants so long as the funds continue to hold specified amounts of warrants or beneficially own specified amounts of the outstanding shares of common stock.

During the six months ended December 31, 2017, and 2016, the Company issued 23,344,451 and 27,989,685 shares, respectively of common stock pursuant to the cashless exercise provisions of warrants at an exercise price of $0.01 per share, and during the six months ended December 31, 2017, the Company received $114,384 and issued 11,438,356 shares of common stock pursuant to the exercise of warrants at an exercise price of $0.01 per share. As of December 31, 2017, all warrants with an exercise price of $0.01 per share have been exercised.

Stock Options – In December 2017, the Company granted 1,200,000 options to its executive officers and 225,000 options to its non-employee directors under the Company's 2011 Stock Incentive Plan. The fair value of these options is $691,171 and $126,130, respectively. The Company is amortizing the fair value of these options over a 48-month vesting period for its executive officers and over a 36-month vesting period for its non-employee directors. The Company recognized $17,904 of stock-based compensation expense related to these options during the three and six months ended December 31, 2017.

Also, in December 2017, the Company granted 1,075,000 and 125,000 performance-based options to its executive officers and employees, respectively, which vest during a performance period ending on December 31, 2020, if and upon i) as to 100% of the target number of shares upon achievement of a closing price for the Company's common stock equal to or greater than $1.50 per share for 20 consecutive trading days, which is considered a market condition; ii) as to thirty percent (30%) of the target number of shares, upon the acceptance for filing by the FDA of an NDA for bremelanotide for HSDD in premenopausal women during the performance period, which is considered a performance condition; iii) as to fifty percent (50%) of the target number of shares, upon the approval by the FDA of an NDA for bremelanotide for HSDD in premenopausal women during the performance period, which is also considered a performance condition; iv) as to twenty percent (20%) of the target number of shares, upon entry into a licensing agreement during the performance period for the commercialization of bremelanotide for female sexual dysfunction in at least two of the following geographic areas (a) four or more countries in Europe, (b) Japan, (c) two or more countries in Central and/or South America, (d) two or more countries in Asia, excluding Japan and China, and (e) Australia, which is also considered a performance condition. The fair value of these options, as calculated under a multifactor Monte Carlo simulation, is $602,760. The Company is amortizing the fair value over the derived service period of 1.1 years. The Company recognized $42,034 of stock-based compensation expense related to these options during the three and six months ended December 31, 2017.

In September 2017, the Company granted 54,000 options to a newly appointed non-employee director under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of these options of $18,176 over a 48 month vesting period. The Company recognized $1,136 and $1,515, respectively, of stock-based compensation expense related to these options during the three and six months ended December 31, 2017.

In June 2017, the Company granted 1,797,000 options to its executive officers, 780,000 options to its employees and 378,000 options to its non-employee directors under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of these options of $445,533, $194,689 and $89,220, respectively, over the vesting period of the options. The Company recognized $62,506 and $125,013, respectively, of stock-based compensation expense related to these options during the three and six months ended December 31, 2017.

In September 2016, the Company granted 828,000 options to its executive officers and 336,000 options to its employees under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of the options vesting over a 48 month period, consisting of 595,000 options granted to its executive officers and all options granted to its employees, of $188,245 and $106,303, respectively, over the vesting period. The Company recognized $17,703 and $35,406, respectively, of stock-based compensation expense related to these options during the three and six months ended December 31, 2017 and $16,568 and $21,784, respectively, during the three and six months ended December 31, 2016. The remaining 233,000 options granted to the Company's executive officers vested 12 months from the date of grant, and the Company amortized the fair value of these options of $67,160 over this vesting period. The Company recognized $11,193 of stock-based compensation expense related to these options during the six months ended December 31, 2017 and $15,111 and $19,868, respectively, during the three and six months ended December 31, 2016.

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In June 2015, the Company granted 570,000 options to its executive officers, 185,800 options to its employees and 160,000 options to its non-employee directors under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of these options of $446,748, $145,439 and $111,876, respectively, over the vesting period. The Company recognized $36,478, and $72,957, respectively, of stock-based compensation expense related to these options during the three and six months ended December 31, 2017 and $35,192 and $67,485, respectively, during the three and six months ended December 31, 2016.

Unless otherwise stated, stock options granted to the Company's executive officers and employees vest over a 48-month period, while stock options granted to its non-employee directors vest over a 12-month period.

Restricted Stock Units – In December 2017, the Company granted 1,200,000 restricted stock units to its executive officers, 225,000 restricted stock units to its non-employee directors and 545,000 restricted stock units to its employees under the Company's 2011 Stock Incentive Plan. The fair value of these restricted stock units is $1,020,000, $191,250 and $463,250, respectively. For executive officers and employees, the restricted stock units vest 25% on the first, second, third and fourth anniversary dates from the date of grant. For non-employee directors, the restricted stock units vest 33 1/3% on the first, second and third anniversary dates from the date of grant. The Company recognized $46,940 of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2017.

Also, in December 2017, the Company granted 1,075,000 performance-based restricted stock units to its executive officers and 670,000 performance-based restricted stock units to other employees which vest during a performance period, ending on December 31, 2020, if and upon i) as to 100% of the target number of shares upon achievement of a closing price for the Company's common stock equal to or greater than $1.50 per share for 20 consecutive trading days, which is considered a market condition; ii) as to thirty percent (30%) of the target number of shares, upon the acceptance for filing by the FDA of an NDA for bremelanotide for HSDD in premenopausal women during the performance period, which is considered a performance condition; iii) as to fifty percent (50%) of the target number of shares, upon the approval by the FDA of an NDA for bremelanotide for HSDD in premenopausal women during the performance period, which is also considered a performance condition; iv) as to twenty percent (20%) of the target number of shares, upon entry into a licensing agreement during the performance period for the commercialization of bremelanotide for female sexual dysfunction in at least two of the following geographic areas (a) four or more countries in Europe, (b) Japan, (c) two or more countries in Central and/or South America, (d) two or more countries in Asia, excluding Japan and China, and (e) Australia, which is also considered a performance condition. The fair value of these awards, as calculated under a multifactor Monte Carlo simulation, is $913,750 and $569,500, respectively. The Company is amortizing the fair value over the derived service period of 1.1 years. The Company recognized $106,850 of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2017.

In September 2017, the Company granted 54,000 restricted stock units to a newly appointed non-employee director under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of these restricted stock units of $27,000 over a 48 month vesting period. The Company recognized $3,516 and $4,414, respectively, of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2017.

In June 2017, the Company granted 1,140,000 restricted stock units to its executive officers, 780,000 restricted stock units to its employees and 378,000 restricted stock units to its non-employee directors under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of these restricted stock units of $421,800, $288,600, and $139,860, respectively, over the vesting period. The Company recognized $171,574 and $323,204, respectively, of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2017.

In September 2016, the Company granted 558,000 restricted stock units to its executive officers, 350,500 of which vest over 24 months and 207,500 of which vested over 12 months, and 336,000 restricted stock units to its employees under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of the restricted stock units of $284,580, and $171,360, respectively, over the vesting periods. The Company recognized $27,491 and $91,483, respectively, of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2017 and $80,228 and $100,732, respectively, during the three and six months ended December 31, 2016.

In December 2015, the Company granted 625,000 performance-based restricted stock units to its executive officers and 200,000 performance-based restricted stock units to its employees under the Company's 2011 Stock Incentive Plan, which vest during the performance period, ending December 31, 2017, if and upon the earlier of: i) achievement of a closing price for the Company's common stock equal to or greater than $1.20 per share for 20 consecutive trading days, which is considered a market condition, or ii) entering into a collaboration agreement (U.S. or global) of bremelanotide for FSD, which is considered a performance condition. This performance condition was deemed met as of February 2, 2017, the effective date of the License Agreement with AMAG. Prior to meeting the performance condition, the Company determined that it was not probable of achievement on the date of grant since meeting the condition was outside the control of the Company. The fair value of these awards, as calculated under a multifactor Monte Carlo simulation, was $338,250 and was recognized over the derived service period which was through December 2016. The Company recognized $55,410 and $142,289, respectively, of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2016. Upon the achievement of the performance condition, which occurred in the three month period ended March 31, 2017, the grant date fair value was utilized and an incremental $222,075 was recognized as stock-based compensation expense during the three months ended March 31, 2017.

Also, in December 2015, the Company granted 625,000 restricted stock units to its executive officers, 340,000 restricted stock units to its non-employee directors and 200,000 restricted stock units to its employees under the Company's 2011 Stock Incentive Plan. For executive officers and employees, the restricted stock units vest 25% on the date of grant and 25% on the first, second and third anniversary dates from the date of grant. For non-employee directors, the restricted stock units vest 50% on the first and second anniversary dates from the date of grant. The Company is amortizing the fair value of these restricted stock units of $425,000, $231,200 and $136,000, respectively, over the vesting period of the restricted stock units. The Company recognized $35,553 and $77,010, respectively, of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2017 and $85,996 and $187,252, respectively, during the three and six months ended December 31, 2016.

In June 2015, the Company granted 400,000 restricted stock units to its executive officers, 185,800 restricted stock units to its employees and 160,000 restricted stock units to its non-employee directors under the Company's 2011 Stock Incentive Plan. The Company is amortizing the fair value of these restricted stock units of $432,000, $200,664, and $172,800, respectively, over the vesting period. The Company recognized $7,067 and $13,954, respectively, of stock-based compensation expense related to these restricted stock units during the three and six months ended December 31, 2017 and $40,430 and $80,859, respectively, during the three and six months ended December 31, 2016.

Unless otherwise stated, restricted stock units granted to the Company’s executive officers, employees and non-employee directors vest over 24 months, 48 months and 12 months, respectively.

Stock-based compensation expense for the three and six months ended December 31, 2017 for equity-based instruments issued other than the stock options and restricted stock units described above was $43,277 and $72,023, respectively, and $121,098 and $232,972, respectively, for the three and six months ended December 31, 2016.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and notes to the consolidated financial statements filed as part of this report and the audited consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended June 30, 2017.

Critical Accounting Policies and Estimates

Our significant accounting policies, which are described in the notes to our consolidated financial statements included in this report and in our Annual Report on Form 10-K for the year ended June 30, 2017, have not changed as of December 31, 2017. We believe that our accounting policies and estimates relating to revenue recognition, accrued expenses and stock-based compensation are the most critical.

Overview

We are a biopharmaceutical company developing targeted, receptor-specific peptide therapeutics for the treatment of diseases with significant unmet medical need and commercial potential. Our programs are based on molecules that modulate the activity of the melanocortin and natriuretic peptide receptor systems. Our lead product in clinical development is bremelanotide for the treatment of premenopausal women with hypoactive sexual desire disorder ("HSDD"), which is a type of female sexual dysfunction ("FSD"), defined as low desire with associated distress. In addition, we have drug candidates and development programs for cardiovascular diseases and inflammatory diseases.

The following drug development programs are actively under development:

Bremelanotide, an as-needed subcutaneous injectable product for the treatment of HSDD in premenopausal women. Bremelanotide is a synthetic peptide analog of the naturally occurring hormone alpha-MSH (melanocyte-stimulating hormone). In two pivotal Phase 3 clinical studies of bremelanotide for HSDD in premenopausal women, bremelanotide met the pre-specified co-primary efficacy endpoints of improvement in desire and decrease in distress associated with low sexual desire as measured using validated patient-reported outcome instruments. We have licensed North American rights to bremelanotide to AMAG Pharmaceuticals, Inc. ("AMAG"), rights in China, Taiwan, Hong Kong and Macau to Shanghai Fosun Pharmaceutical Industrial Development Co. Ltd. ("Fosun"), and rights in the Republic of Korea to Kwangdong Pharmaceutical Co., Ltd. ("Kwangdong").

Melanocortin peptide system program, focused on development of treatments for a variety of inflammatory disease indications. PL-8177 is a selective melanocortin receptor 1 ("MC1r") agonist peptide we have designated as our lead clinical development candidate for inflammatory bowel diseases. We have filed an Investigational New Drug ("IND") application and announced dosing of human subjects in a Phase 1 clinical safety study in February, 2018. A dual melanocortin receptor 1 and 5 peptide we developed, PL-8331, is a preclinical development candidate for treating ocular inflammation. We anticipate completing IND preclinical enabling activities on PL-8331 later this calendar year; and

Natriuretic peptide system program, including PL−3994, a natriuretic peptide receptor-A ("NPR-A") agonist, for treatment of cardiovascular indications. PL−3994, a synthetic mimetic of the neuropeptide hormone atrial natriuretic peptide ("ANP"), is in development for treatment of heart failure, and is scheduled to start Phase 2A clinical trials later this calendar year. A dual natriuretic peptide receptor A and C agonist we developed, PL-5028, is in preclinical development for cardiovascular diseases, including reducing cardiac hypertrophy and fibrosis. We may file an IND

application in the first half of calendar year 2019, and thereafter initiate a Phase 1 clinical safety study.

The following chart illustrates the status of our drug development programs.

Our Strategy

Key elements of our business strategy include:

Using our technology and expertise to develop and commercialize products in our active drug development programs;

Entering into strategic alliances and partnerships with pharmaceutical companies to facilitate the development, manufacturing, marketing, sale and distribution of our product candidates;

Partially funding our product development programs with the cash flow generated from existing license agreements, as well as any future research, collaboration or license agreements with third parties; and

Completing development and seeking regulatory approval of certain of our product candidates.

We incorporated in Delaware in 1986 and commenced operations in the biopharmaceutical area in 1996. Our corporate offices are located at 4B Cedar Brook Drive, Cranbury, New Jersey 08512 and our telephone number is (609) 495-2200. We maintain an Internet site at http://www.palatin.com, where among other things, we make available free of charge on and through this website our Forms 3, 4 and 5, proxy statements, Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d), Section 14A and Section 16 of the Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish it to, the SEC. Our website and the information contained in it or connected to it are not incorporated into this Quarterly Report on Form 10-Q.

Results of Operations

Three and Six Months Ended December 31, 2017 Compared to the Three and Six Months Ended December 31, 2016

Revenue – For the three and six months ended December 31, 2017, we recognized $10,612,153 and $37,553,661, respectively, in revenue, of which $10,612,153 and $32,553,661, respectively, was attributable to our License Agreement with AMAG. For the six months ended December 31, 2017, $5,000,000 in revenue was attributable to our License Agreement with Fosun. We recognized no revenue for the three and six months ended December 31, 2016.

On January 8, 2017, we entered into the License Agreement with AMAG which provided for $60,000,000 as a one-time initial payment. Pursuant to the terms of and subject to the conditions in the License Agreement with AMAG, AMAG reimbursed us $25,000,000 for reasonable, documented, direct out-of-pocket expenses we incurred following the Effective Date of the License Agreement with AMAG in connection with the development and regulatory activities necessary to file an NDA for bremelanotide for HSDD in the United States.

On September 6, 2017, we entered into the License Agreement with Fosun, for exclusive rights to commercialize bremelanotide in the territories of mainland China, Taiwan, Hong Kong S.A.R. and Macau S.A.R., which provided for $5,000,000 as a one-time non-refundable upfront payment. Pursuant to the License Agreement with Fosun, $500,000 was withheld in accordance with tax withholding requirements in China and will be recorded as an expense during the fiscal year ending June 30, 2018. For the three and six months ended December 31, 2017, the Company incurred $54,712 and $279,967 in income tax expense related to this transaction.

On November 21, 2017, we entered into the License Agreement with Kwangdong, for exclusive rights to commercialize bremelanotide in the Republic of Korea, which provided for a $500,000 as a one-time refundable upfront payment, which has been recorded as non-current deferred revenue as of December 31, 2017. Pursuant to the License Agreement with Kwangdong, $82,500 was withheld in accordance with tax withholding requirements in South Korea and will be recorded as an expense during the fiscal year ending June 30, 2018. For the three and six months ended December 31, 2017, the Company incurred $46,168 in income tax expense related to this transaction.

Research and Development – Research and development expenses were $6,045,884 and $20,208,981, respectively for the three and six months ended December 31, 2017, compared to $8,134,575 and $19,360,659, respectively, for the three and six months ended December 31, 2016.

Research and development expenses related to our bremelanotide, PL-3994, MC1r, MC4r and other preclinical programs were $4,850,502 and $18,035,608, respectively, for the three and six months ended December 31, 2017, compared to $7,203,093 and $17,302,067, respectively, for the three and six months ended December 31, 2016. Spending to date has been primarily related to our bremelanotide for the treatment of HSDD program. The fluctuations in research and development expenses for the periods presented are mainly attributable to the progression of the Phase 3 clinical trial and development of bremelanotide for HSDD program. The amount of such spending and the nature of future development activities are dependent on a number of factors, including primarily the availability of funds to support future development activities, success of our clinical trials and preclinical and discovery programs, and our ability to progress compounds in addition to bremelanotide and PL-3994 into human clinical trials.

The amounts of project spending noted above exclude general research and development spending, which was $1,195,382 and $2,173,373, respectively, for the three and six months ended December 31, 2017 compared to $931,481 and $2,058,592, respectively, for the three and six months ended December 31, 2016. The increase in general research and development spending is primarily attributable to employee related expenses.

Cumulative spending from inception to December 31, 2017 is approximately $297,700,000 on our bremelanotide program and approximately $126,900,000 on all our other programs (which include PL−3994, PL−8177, other melanocortin receptor agonists, other discovery programs and terminated programs). Due to various risk factors described herein and in our Annual Report on Form 10-K for the year ended June 30, 2017, under “Risk Factors,” including the difficulty in estimating the costs and timing of future Phase 1 clinical trials and larger-scale Phase 2 and Phase 3 clinical trials for any product under development, we cannot predict with reasonable certainty when, if ever, a program will advance to the next stage of development, be successfully completed, or generate net cash inflows.

General and Administrative – General and administrative expenses, which consist mainly of compensation and related costs, were $1,625,189 and $3,169,764, respectively, for the three and six months ended December 31, 2017 compared to $1,306,300 and $2,515,646, respectively, for the three and six months ended December 31, 2016. The increase in general and administrative expenses is primarily attributable to professional services rendered for tax compliance and Internal Revenue Code Section 382 services and secondarily attributable to employee related expenses recognized in the corresponding periods.

Other Income (Expense) – Other income (expense) was $(310,007) and $(714,958), respectively, for the three and six months ended December 31, 2017 compared to $(588,544) and $(1,205,884), respectively, for the three and six months ended December 31, 2016. For the three and six months ended December 31, 2017, we recognized $81,356 and $133,082, respectively, of investment income offset by $(391,363) and $(848,040), respectively, of interest expense primarily related to our venture debt. For the three and six months ended December 31, 2016, we recognized $5,991 and $12,636, respectively, of investment income offset by $(594,535) and $(1,218,520), respectively, of interest expense primarily related to our venture debt.

Income Tax Benefit – Net income tax benefit was $399,120 and $173,865, respectively, for the three and six months ended December 31, 2017. Pursuant to the 2017 Tax Act, during the quarter ended December 31, 2017, we recorded a tax benefit of $500,000 related to the release of a valuation allowance against an AMT credit; accordingly this benefit is offset by $100,880 and $326,135, respectively, in income tax expense for the three and six months ended December 31, 2017. No income tax expense or benefit was recognized for the three and six months ended December 31, 2016.

Liquidity and Capital Resources

Since inception, we have incurred net operating losses, primarily related to spending on our research and development programs. We have financed our net operating losses primarily through debt and equity financings and amounts received under collaboration and license agreements.

Our product candidates are at various stages of development and will require significant further research, development and testing and some may never be successfully developed or commercialized. We may experience uncertainties, delays, difficulties and expenses commonly experienced by early stage biopharmaceutical companies, which may include unanticipated problems and additional costs relating to:

the development and testing of products in animals and humans;

product approval or clearance;

regulatory compliance;

good manufacturing practices (“GMP”) compliance;

intellectual property or technology rights;

product introduction;

marketing, sales and competition; and

obtaining sufficient capital.

Failure to enter into or successfully perform under collaboration agreements and obtain timely regulatory approval for our product candidates and indications would impact our ability to increase revenues and could make it more difficult to attract investment capital for funding our operations. Any of these possibilities could materially and adversely affect our operations and require us to curtail or cease certain programs.

During the six months ended December 31, 2017, cash used in operating activities was $1,558,456, compared to $17,731,525 for the six months ended December 31, 2016. Lower net cash outflows from operations in the six months ended December 31, 2017 was primarily the result of the cash payments received in the period relating to our license agreements with AMAG, Fosun and Kwangdong. Our periodic prepaid expenses, accounts payable and accrued expenses balances will continue to be highly dependent on the timing of our operating costs.

During the six months ended December 31, 2017, cash provided by investing activities was $240,500, consisting of $250,000 in proceeds from the maturity of investments offset by $9,500, which was used for the purchase of equipment. There were no investing activities during the six months ended December 31, 2016.

During the six months ended December 31, 2017, net cash used in financing activities was $3,924,320, which consisted of $4,000,000 for the payment on notes payable, and $38,704 for capital lease payments and the payment of withholding taxes related to restricted stock units, offset by proceeds from the exercise of warrants of $114,384. During the six months ended December 31, 2016, net cash provided by financing activities of $21,843,438 consisted of net proceeds of $23,856,972 from the sale of common stock and warrants in August and December 2016, offset by $2,013,534 for the payment of principal on notes payable and capital lease payments.

We have incurred cumulative negative cash flows from operations since our inception, and have expended, and expect to continue to expend in the future, substantial funds to complete our planned product development efforts. Continued operations are dependent upon our ability to complete equity or debt financing activities, entering into licensing agreements or collaboration arrangements. As of December 31, 2017, our cash and cash equivalents were $34,958,048 and our current liabilities were $14,120,695, net of deferred revenue of $9,548,228.

We intend to utilize existing capital resources for general corporate purposes and working capital, including preparation and filing of an NDA on bremelanotide for HSDD with the FDA, and preclinical and clinical development of our MC1r and MC4r peptide programs and PL-3994 natriuretic peptide, and development of other portfolio products.

We believe that our existing capital resources will be adequate to fund our planned operations through at least one year after the date that these financial statements are issued. We will need additional funding to complete required clinical trials for our other product candidates and development programs and, if those clinical trials are successful (which we cannot predict), to complete submission of required regulatory applications to the FDA.

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

Off-Balance Sheet Arrangements

None.

Item 3. Quantitative and Qualitative Disclosures About Market Risk.

Not required to be provided by smaller reporting companies.

Item 4. Controls and Procedures.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures, as defined in Exchange Act Rules 13a-15(e) and 15d-15(e), as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of December 31, 2017. There were no changes in our internal control over financial reporting that occurred during our most recent fiscal quarter that materially affected, or that are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings.

We may be involved, from time to time, in various claims and legal proceedings arising in the ordinary course of our business. We are not currently a party to any claim or legal proceeding.

Item 1A. Risk Factors.

This report and other documents we file with the SEC contain forward-looking statements that are based on current expectations, estimates, forecasts and projections about us, our future performance, our business, our beliefs and our management's assumptions. These statements are not guarantees of future performance, and they involve certain risks, uncertainties and assumptions that are difficult to predict. You should carefully consider the risks and uncertainties facing our business.

There have been no material changes to our risk factors disclosed in Part I, Item 1A, of our Annual Report, on Form 10-K for the year ended June 30, 2017.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

None.

Item 3. Defaults Upon Senior Securities.

None.

Item 4. Mine Safety Disclosures.

Not applicable.

Item 5. Other Information.

None.

Item 6. Exhibits.

Exhibits filed or furnished with this report:

Exhibit Number	Description	Filed Herewith	Form	Filing Date	SEC File No.
31.1	Certification of Chief Executive Officer.	X			
31.2	Certification of Chief Financial Officer.	X			
32.1	Certification of principal executive officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
32.2	Certification of principal financial officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.	X			
101.INS	XBRL Instance Document.	X			

101.SCH	XBRL Taxonomy Extension Schema Document.	X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.	X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.	X
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document.	X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.	X

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Palatin Technologies, Inc.
(Registrant)

Date: February 12, 2018	/s/ Carl Spana Carl Spana, Ph.D. President and Chief Executive Officer (Principal Executive Officer)
Date: February 12, 2018	/s/ Stephen T. Wills Stephen T. Wills, CPA, MST Executive Vice President, Chief Financial Officer and Chief Operating Officer (Principal Financial and Accounting Officer)

EXHIBIT INDEX

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