

PALATIN TECHNOLOGIES INC  
Form 10-Q  
February 12, 2016

---

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended December 31, 2015

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	95-4078884
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

4B Cedar Brook Drive	
Cranbury, New Jersey	08512
(Address of principal executive offices)	(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

Edgar Filing: PALATIN TECHNOLOGIES INC - Form 10-Q

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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

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

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 10, 2016, 68,030,008 shares of the registrant's common stock, par value \$0.01 per share, were outstanding.

---

---

PALATIN TECHNOLOGIES, INC.  
Table of Contents

	Page
PART I – FINANCIAL INFORMATION	
<u>Item 1. Financial Statements (Unaudited)</u>	4
<u>Consolidated Balance Sheets as of December 31, 2015 and June 30, 2015</u>	4
<u>Consolidated Statements of Operations for the Three and Six Months Ended December 31, 2015 and 2014</u>	5
<u>Consolidated Statements of Comprehensive (Loss) Income for the Three and Six Months Ended December 31, 2015 and 2014</u>	6
<u>Consolidated Statements of Cash Flows for the Six Months Ended December 31, 2015 and 2014</u>	7
<u>Notes to Consolidated Financial Statements</u>	8
<u>Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>Item 3. Quantitative and Qualitative Disclosures About Market Risk</u>	20
<u>Item 4. Controls and Procedures</u>	20
PART II – OTHER INFORMATION	
<u>Item 1. Legal Proceedings</u>	21
<u>Item 1A. Risk Factors</u>	21
<u>Item 2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	39
<u>Item 3. Defaults Upon Senior Securities</u>	39
<u>Item 4. Mine Safety Disclosures</u>	39
<u>Item 5. Other Information</u>	39
<u>Item 6. Exhibits</u>	40
<u>Signatures</u>	41



SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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, 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 the results and the timing of results in our Phase 3 clinical trials of bremelanotide for female sexual dysfunction, or FSD;

our expectation regarding the timing of our regulatory submissions for approval of bremelanotide for FSD in the United States and Europe;

the potential for commercialization of bremelanotide for FSD and other product candidates, if approved, by us;

our expectations regarding the potential market size and market acceptance for bremelanotide for FSD 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 MKT.

Such forward-looking statements involve known and unknown 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, 2015, 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.

## PART I - FINANCIAL INFORMATION

## Item 1. Financial Statements

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

	December 31, 2015	June 30, 2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$31,990,606	\$27,299,268
Available-for-sale investments	1,377,633	-
Prepaid expenses and other current assets	1,716,058	1,896,747
Total current assets	35,084,297	29,196,015
Property and equipment, net	118,660	123,158
Other assets	191,074	155,279
Total assets	\$35,394,031	\$29,474,452
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$2,376,279	\$1,106,484
Accrued expenses	5,646,697	6,223,483
Notes payable, net of discount	1,909,821	-
Capital lease obligations	26,636	25,871
Total current liabilities	9,959,433	7,355,838
Notes payable, net of discount, net of current portion	17,665,725	9,781,086
Capital lease obligations	28,236	41,749
Other non-current liabilities	265,217	91,304
Total liabilities	27,918,611	17,269,977
Stockholders' equity:		
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, 2015 and 4,697 shares as of June 30, 2015, respectively	40	47
Common stock of \$0.01 par value – authorized 300,000,000 shares; issued and outstanding 68,030,008 shares as of December 31, 2015 and 57,128,433 shares as of June 30, 2015, respectively	680,300	571,284
Additional paid-in capital	324,163,388	303,332,460
Accumulated other comprehensive loss	(9,389 )	-
Accumulated deficit	(317,358,919)	(291,699,316)
Total stockholders' equity	7,475,420	12,204,475
Total liabilities and stockholders' equity	\$35,394,031	\$29,474,452

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,	
	2015	2014	2015	2014
<b>REVENUES:</b>				
License revenue	\$-	\$8,019,415	\$-	\$12,951,730
<b>OPERATING EXPENSES:</b>				
Research and development	11,272,307	4,273,571	21,870,021	7,197,537
General and administrative	1,356,117	1,423,206	2,556,054	2,537,667
Total operating expenses	12,628,424	5,696,777	24,426,075	9,735,204
(Loss) income from operations	(12,628,424 )	2,322,638	(24,426,075 )	3,216,526
<b>OTHER INCOME (EXPENSE):</b>				
Interest income	8,234	6,199	23,974	9,998
Interest expense	(629,494 )	(31,857 )	(1,257,502 )	(33,587 )
Foreign exchange transaction loss	-	(51,700 )	-	(152,983 )
Total other income (expense), net	(621,260 )	(77,358 )	(1,233,528 )	(176,572 )
(Loss) income before income taxes	(13,249,684 )	2,245,280	(25,659,603 )	3,039,954
Income tax benefit	-	531,508	-	531,508
<b>NET (LOSS) INCOME</b>	<b>(13,249,684 )</b>	<b>2,776,788</b>	<b>(25,659,603 )</b>	<b>3,571,462</b>
Basic net (loss) income per common share	\$(0.08 )	\$0.03	\$(0.16 )	\$0.03
Diluted net (loss) income per common share	\$(0.08 )	\$0.03	\$(0.16 )	\$0.03
Weighted average number of common shares outstanding used in computing basic net (loss) income per common share				
	156,358,586	109,314,460	156,268,094	108,134,179
Weighted average number of common shares outstanding used in computing diluted net (loss) income per common share				
	156,358,586	109,815,718	156,268,094	108,888,313

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

PALATIN TECHNOLOGIES, INC.  
and Subsidiary  
Consolidated Statements of Comprehensive (Loss) Income  
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
Net (loss) income	\$(13,249,684)	\$2,776,788	\$(25,659,603)	\$3,571,462
Other comprehensive (loss) income:				
Unrealized (loss) on available-for-sale investments	(9,389 )	-	(9,389 )	-
Total comprehensive (loss) income	\$(13,259,073)	\$2,776,788	\$(25,668,992)	\$3,571,462

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,	
	2015	2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net (loss) income	\$(25,659,603)	\$3,571,462
Adjustments to reconcile net (loss) income to net cash (used in) provided by operating activities:		
Depreciation and amortization	22,193	55,185
Non-cash interest expense	161,478	8,486
Stock-based compensation	800,748	512,390
Changes in operating assets and liabilities:		
Accounts receivable	-	(3,035,400)
Prepaid expenses and other assets	229,186	(1,255,646)
Accounts payable	1,269,795	1,152,758
Accrued expenses	(445,111)	1,412,699
Deferred revenue	-	(1,000,000)
Other non-current liabilities	173,913	-
Net cash (used in) provided by operating activities	(23,447,401)	1,421,934
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Purchases of investments	(1,387,022)	-
Purchases of property and equipment	(17,695)	-
Net cash used in investing activities	(1,404,717)	-
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on capital lease obligations	(12,748)	-
Payment of withholding taxes related to restricted stock units	(131,959)	(122,067)
Proceeds from the sale of warrants, net of costs	19,834,278	19,348,000
Proceeds from the issuance of notes payable and warrants	10,000,000	10,000,000
Payment of debt issuance costs	(146,115)	(138,000)
Net cash provided by financing activities	29,543,456	29,087,933
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>4,691,338</b>	<b>30,509,867</b>
<b>CASH AND CASH EQUIVALENTS, beginning of period</b>	<b>27,299,268</b>	<b>12,184,605</b>
<b>CASH AND CASH EQUIVALENTS, end of period</b>	<b>\$31,990,606</b>	<b>\$42,694,472</b>
<b>SUPPLEMENTAL CASH FLOW INFORMATION:</b>		
Cash paid for interest	\$922,111	\$2,601
Issuance of warrants in connection with debt financing	305,196	267,820
Unrealized loss on available-for-sale investments	9,389	-
Interest accrued on long-term debt	-	22,500

Edgar Filing: PALATIN TECHNOLOGIES INC - Form 10-Q

Equipment acquired under capital lease	-	80,000
Non-cash equity financing costs in accounts payable	-	490,000
Non-cash equity financing costs in accrued expenses	-	285,000
Non-cash debt financing costs in accounts payable	-	10,000
Non-cash debt financing costs in accrued expenses	-	60,000

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, obesity and related disorders, cachexia (wasting syndrome) 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 acute asthma, heart failure, hypertension and other cardiovascular diseases.

The Company's primary product in development is bremelanotide for the treatment of female sexual dysfunction (FSD). The Company also has drug candidates or development programs for obesity, erectile dysfunction, cardiovascular diseases, pulmonary diseases, inflammatory diseases and dermatologic diseases.

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 third parties.

Business Risk and Liquidity – The Company has incurred negative cash flows from operations since its inception and has expended, and expects to continue to expend in the future, substantial funds to complete its planned product development efforts. As shown in the accompanying consolidated financial statements, the Company had an accumulated deficit as of December 31, 2015 of \$317.4 million and incurred a net loss for the three and six months ended December 31, 2015 of \$13.2 million and \$25.7 million, respectively. The Company anticipates incurring additional losses in the future as a result of spending on its development programs. To achieve 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 profitability is highly uncertain, and there can be no assurance that the Company will be able to achieve profitability on a sustained basis, if at all.

As of December 31, 2015, the Company's cash, cash equivalents and investments were \$33.4 million. The Company intends to utilize existing capital resources for general corporate purposes and working capital, including the Phase 3 clinical trial program with bremelanotide for FSD and preclinical and clinical development of our other product candidates and programs, including PL-3994 and melanocortin receptor-1 and melanocortin receptor-4 programs. Management believes that the Phase 3 clinical trial program with bremelanotide, including regulatory filings for product approval, will cost at least \$80.0 million, of which \$38.7 million has been expensed to date.

Management believes that the Company's existing capital resources will be adequate to fund its planned operations through the quarter ending September 30, 2016. Additional funding will be needed to complete development of our

bremelanotide for FSD program, including regulatory filings for product approval and to conduct and complete required clinical trials for our other product candidates and, assuming those clinical trials are successful, as to which there can be no assurance, to complete submission of required regulatory applications to the FDA. The Company may seek the additional capital necessary to fund our operations through public or private equity offerings, collaboration agreements, debt financings or licensing arrangements.

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. 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, 2014, 100% of revenues were from Gedeon Richter Plc. (Gedeon Richter). For the three and six months ended December 31, 2015, the Company had no revenues reported.

(2) BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles 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, 2015 may not necessarily be indicative of the results of operations expected for the full year, except that the Company expects to incur a significant loss for the fiscal year ending June 30, 2016.

PALATIN TECHNOLOGIES, INC.  
and Subsidiary

Notes to Consolidated Financial Statements  
(unaudited)

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, 2015, filed with the Securities and Exchange Commission (SEC), which includes consolidated financial statements as of June 30, 2015 and 2014 and for each of the fiscal years in the three-year period ended June 30, 2015.

(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 accounting principles generally accepted in the United States of America (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 \$31,811,576 and \$26,946,378 in a money market account at December 31, 2015 and June 30, 2015, 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 (loss) income.

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 payable and notes payable. Management believes that the carrying values of cash equivalents 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, cash equivalents and available-for-sale investments. Total cash and cash equivalent balances have

exceeded insured balances by the Federal Depository Insurance Company (FDIC).

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.

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 – Under our license, co-development and commercialization agreement with Gedeon Richter (Note 6), we received consideration in the form of a license fee and development milestone payment.



PALATIN TECHNOLOGIES, INC.  
and Subsidiary

Notes to Consolidated Financial Statements  
(unaudited)

Revenue resulting from license fees is recognized upon delivery of the license for the portion of the license fee payment that is non-contingent and non-refundable, if the license has standalone value. Revenue resulting from the achievement of development milestones is recorded in accordance with the accounting guidance for the milestone method of revenue recognition.

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 our development activities. We review the activities performed under significant contracts each quarter and accrue expenses and the amount of any reimbursement to be received from our 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 we do not identify services performed for us but not billed by the service-provider, or if we underestimate or overestimate 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 are valued using multifactor Monte Carlo simulations.

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.

During the three and six months ended December 31, 2014, the Company sold New Jersey state net operating loss (NJ NOL) carryforwards, which resulted in the recognition of \$531,508 in tax benefits.

Net (Loss) Income per Common Share – Basic and diluted earnings per common share (EPS) are calculated in accordance with the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (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, that are exercisable for nominal consideration and, therefore, are to be considered in the computation of basic and diluted net loss per common share. The Series A 2012 warrants to purchase up to 31,988,151 shares of common stock were exercisable starting at July 3, 2012 and, therefore, are included in the weighted average number of common shares outstanding used in computing basic and diluted net loss per common share starting on July 3, 2012.

The Series B 2012 warrants to purchase up to 35,488,380 shares of common stock were considered contingently issuable shares and were not included in computing basic net loss per common share until the Company received stockholder approval for the increase in authorized underlying common stock on September 27, 2012. For diluted EPS, contingently issuable shares are to be included in the calculation as of the beginning of the period in which the conditions were satisfied, unless the effect would be anti-dilutive. The Series B 2012 warrants were excluded from the calculation of diluted net loss per common share during the period from July 3, 2012 until September 27, 2012 as the impact would be anti-dilutive.

The Series C 2014 warrants to purchase up to 24,949,325 shares of common stock were exercisable starting at December 23, 2014 and, therefore are included in the weighted average number of common shares outstanding used in computing basic and diluted net loss per common share starting on December 23, 2014.

The Series E 2015 warrants to purchase up to 21,917,808 shares of common stock were exercisable starting at July 2, 2015 and, therefore are included in the weighted average number of common shares outstanding used in computing basic and diluted net loss per common share starting on July 2, 2015 (Note 12).

The following table is a reconciliation of net (loss) income and the shares used in calculating basic and diluted net (loss) income per common share for the three and six months ended December 31, 2015 and 2014:

PALATIN TECHNOLOGIES, INC.  
and Subsidiary

Notes to Consolidated Financial Statements  
(unaudited)

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
<b>Numerator:</b>				
Net (loss) income	\$(13,249,684 )	\$2,776,788	\$(25,659,603 )	\$3,571,462
<b>Denominator:</b>				
Weighted average common shares outstanding -				
Basic	156,358,586	109,314,460	156,268,094	108,134,179
Effect of dilutive shares:				
Common stock equivalents arising from stock options and warrants				
	-	346,867	-	560,572
Restricted stock units				
	-	154,391	-	193,562
Weighted average common shares outstanding -				
Diluted	156,358,586	109,815,718	156,268,094	108,888,313
<b>Net (loss) income per common share:</b>				
Basic	\$(0.08 )	\$0.03	\$(0.16 )	\$0.03
Diluted	\$(0.08 )	\$0.03	\$(0.16 )	\$0.03

For the periods ended December 31, 2015 and 2014, 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, and Series E 2015 warrants issued in connection with the July 3, 2012, December 23, 2014, and July 2, 2015 private placement offerings), and the vesting of restricted stock units amounted to an aggregate of 34,901,635, and 29,378,689 shares, respectively, and are excluded in the weighted average number of common shares outstanding used in computing diluted net (loss) income per common share as they are anti-dilutive. For the three and six months ended December 31, 2015, no additional common shares were added in the computation of diluted EPS because to do so would have been anti-dilutive for this period.

(4) NEW AND RECENTLY ADOPTED ACCOUNTING PRONOUNCEMENTS:

In April 2015, the FASB issued ASU No. 2015-03, "Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability, similar to the presentation of debt discounts. In August 2015, the FASB issued a clarification that debt issuance costs related to line-of-credit arrangements were not within the scope of the new guidance and therefore should continue to be accounted for as deferred assets in the balance sheet, consistent with existing GAAP. The new standard is effective for the Company for its fiscal year ending June 30, 2017. The Company is evaluating the effect of the standard on its consolidated financial statements.

In August 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements-Going Concern: Disclosures of Uncertainties about an Entity's Ability to Continue as a Going Concern." The amendments in this update provide guidance in U.S. GAAP about management's responsibility to evaluate whether there is substantial doubt

about an entity's ability to continue as a going concern and to provide related footnote disclosures. In doing so, the amendments should reduce diversity in the timing and content of footnote disclosures. The new standard is effective for the Company for its fiscal year ending June 30, 2017. The Company is evaluating the effect of the standard, if any, on its consolidated financial statements.

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, with early adoption permitted one year prior. The standard permits the use of either the retrospective or cumulative effect transition method. The Company is evaluating the effect that ASU 2014-09 will have on its consolidated financial statements and related disclosures. The Company has not yet selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

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. The new guidance is effective for the Company on July 1, 2017, with early adoption permitted as of the beginning of an interim or annual reporting period. The new guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is evaluating the impact that the new guidance will have on its consolidated financial statements and related disclosures; however, at the present time the Company has recorded a valuation allowance against its deferred tax assets based on the history of losses incurred.

PALATIN TECHNOLOGIES, INC.  
and Subsidiary

Notes to Consolidated Financial Statements  
(unaudited)

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 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 the new guidance will have on its consolidated financial statements and related disclosures.

(5) AGREEMENT WITH ASTRAZENECA:

In January 2007, the Company entered into an exclusive global research collaboration and license agreement with AstraZeneca to discover, develop and commercialize compounds that target melanocortin receptors for the treatment of obesity, diabetes and related metabolic syndrome. This agreement expired because AstraZeneca ceased developing a compound covered by the agreement. All rights and licenses that we granted to AstraZeneca terminated upon expiration of the agreement.

(6) AGREEMENT WITH GEDEON RICHTER:

In August 2014, the Company entered into a license, co-development and commercialization agreement with Gedeon Richter on bremelanotide for FSD in Europe and selected countries. On September 16, 2015, the Company and Gedeon Richter mutually and amicably agreed to terminate the license, co-development and commercialization agreement. In connection with the termination of the license agreement, all rights and licenses to co-develop and commercialize bremelanotide for FSD indications granted by the Company under the license agreement to Gedeon Richter terminated and reverted to the Company, and neither party is expected to have any future material obligations under the license agreement. Neither the Company nor Gedeon Richter incurred any early termination penalties or other payment or reimbursement obligations as a result of the termination of the license agreement.

The Company viewed the delivery of the license for bremelanotide as a revenue generating activity that is part of its ongoing and central operations. The other elements of the agreement with Gedeon Richter were considered non-revenue activities associated with the collaborative arrangement. The Company believes the license had standalone value from the other elements of the collaborative arrangement because it conveyed all of the rights necessary to develop and commercialize bremelanotide in the licensed territory.

In August 2013, the Company received an initial payment of \$1.0 million from Gedeon Richter as a non-refundable option fee on the license, co-development and commercialization agreement, and in September 2014, the Company received €6.7 million (\$8.8 million) on execution of the definitive agreement. During the six months ended December 31, 2014, a previously received upfront payment of €7.5 million (\$9.8 million) was recorded as license revenue in the consolidated statements of operations, of which \$4.9 million was recorded in the three months ended September 30, 2014 for the non-refundable and non-contingent portion of the license fee and \$4.9 million was recorded in the three months ended December 31, 2014 upon the initiation of the Phase 3 clinical trials when such portion became non-refundable per the agreement. During the three months ended December 31, 2014, the Company recorded revenue related to a milestone payment due of €2.5 million (\$3.1 million) upon the initiation of the Company's Phase 3 clinical trial program in the United States, which the Company initiated in December 2014.

As a result of fluctuations in the conversion rates between the Euro and the U.S. Dollar between the transaction date and the settlement date, the Company recorded a foreign exchange transaction loss of \$51,700 and \$152,983 for the three and six months ended December 31, 2014, respectively.