

PALATIN TECHNOLOGIES INC  
Form DEF 14A  
October 29, 2007

OMB APPROVAL

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

SCHEDULE 14A

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

Filed by the Registrant  X  
Filed by a Party other than the Registrant  O

Check the appropriate box:

- Preliminary Proxy Statement
- Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))
- Definitive Proxy Statement
- Definitive Additional Materials
- Soliciting Material Pursuant to §240.14a-12

Palatin Technologies, Inc.

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(Name of Registrant as Specified In Its Charter)

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

Payment of Filing Fee (Check the appropriate box):

- No fee required.
- Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

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

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2) Aggregate number of securities to which transaction applies:

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

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o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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**PALATIN TECHNOLOGIES, INC.**

4C Cedar Brook Drive  
Cranbury, New Jersey 08512

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**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS**

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DATE	Friday, December 7, 2007
TIME	9:30 a.m., Eastern Time
PLACE	Palatin's offices, Cedar Brook Corporate Center, 4C Cedar Brook Drive, Cranbury, New Jersey 08512
RECORD DATE	October 25, 2007
ITEMS OF BUSINESS	(1) election of directors; (2) ratification of appointment of our independent registered public accounting firm for the fiscal year ending June 30, 2008;

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- (3) approval of an increase in common stock available for issuance under our 2005 Stock Plan; and
- (4) any other matters properly brought before the meeting.

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

**ANNUAL REPORT** A copy of our annual report on Form 10-K for the year ended June 30, 2007 accompanies this notice.

By order of the board of directors,  
STEPHEN T. WILLS, *Secretary*  
October 26, 2007

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### PALATIN TECHNOLOGIES, INC.

#### ANNUAL MEETING 2007

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**PALATIN TECHNOLOGIES, INC.**

**ANNUAL MEETING 2007**

**PROXY STATEMENT**

**VOTING PROCEDURES AND SOLICITATION**

**YOUR VOTE IS IMPORTANT**

Whether or not you plan to attend the meeting, please complete and return the enclosed proxy card. Your prompt voting may save us the expense of following up with a second mailing. We are sending these proxy materials to stockholders beginning on or about November 5, 2007.

**METHODS OF VOTING**

You may vote by telephone, by signing and returning the enclosed proxy card, or by voting in person at the meeting. To vote by telephone at any time up to 11:59 p.m. Eastern time the day before the meeting:

read the proxy statement,

call toll-free 1-800-776-9437 (1-800-PROXIES) or 1-718-921-8500 from foreign countries, using a touch-tone phone (24 hours/day, 7 days/week),

have your enclosed proxy card in hand, and

follow the voice instructions.

If you vote by telephone, please do not send in the proxy card. If you vote by telephone or send in a proxy card, and also attend the meeting in person, the proxy holders will vote your shares as you previously instructed, unless you inform the Secretary at the meeting that you wish to vote in person.

**REVOKING OR CHANGING A PROXY**

You may revoke your proxy or change your vote by:

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calling a telephone number listed above and following the voice instructions (you must have your proxy card in hand);

signing and returning another proxy card on a later date;

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

informing the Secretary and voting in person at the meeting.

To be effective, a telephone revocation or change must be made by 11:59 p.m. Eastern time the day before the meeting, and a later-dated proxy or written revocation or change must arrive at our corporate offices before the start of the meeting.

### PROXY SOLICITATION

We are soliciting proxies on behalf of the board of directors, and we will pay all costs of preparing, assembling and mailing the proxy materials. In addition to mailing out proxy materials, our

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officers and employees may solicit proxies by telephone or fax, without receiving any additional compensation for their services. We have requested brokers, banks and other fiduciaries to forward proxy materials to the beneficial owners of our stock.

### HOW PROXIES ARE VOTED

The proxy holders are Carl Spana, Ph.D., our chief executive officer, president and a director, and Stephen T. Wills, our chief financial officer, executive vice president of operations, secretary and treasurer. The proxy holders will vote your shares according to your instructions on the proxy card or your telephone instructions. If a signed proxy card does not contain instructions, the proxy holders will vote the shares FOR the election of the director nominees listed on the card; FOR ratifying the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2008; FOR the increase in common stock available for issuance under our 2005 Stock Plan; and in their discretion on any other business which may properly come before the meeting.

### QUORUM AND VOTES REQUIRED

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

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

Ratifying the appointment of our independent registered public accounting firm for the fiscal year ending June 30, 2008 requires a majority of the votes cast on that item. Abstentions and broker non-votes will count neither for nor against ratification.

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Approval of the increase in common stock available for issuance under our 2005 Stock Plan requires a majority of the votes cast on that item. Abstentions and broker non-votes will count neither for nor against the proposal.

If your shares are held in a stock brokerage account, the broker will vote your shares as you direct. If you do not provide instructions to your broker, your broker may vote your shares for Items One and Two (election of directors and ratification of appointment of our independent registered public accounting firm), but may not vote your shares for or against Item Three (an increase in common stock available for issuance under our 2005 Stock Plan) unless you provide instructions to your broker. If you do not provide instructions on how to vote your shares held in a stock brokerage account, your shares will be counted as broker non-votes on Item Three, and will have no effect on that proposal, since approval is based solely on the votes actually cast.

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

Holders of common stock and of Series A preferred stock at the close of business on the record date of October 25, 2007, are entitled to vote at the meeting.

Common stock: 85,204,169 shares outstanding, one vote per share

Series A preferred stock: 4,997 shares outstanding, approximately 39.84 votes per share, or atotal of 199,080 votes

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### ITEM ONE: ELECTION OF DIRECTORS

We recommend voting FOR the eight nominees listed below. At the meeting, the eight nominees who receive the most votes will be elected as directors to serve until the next annual meeting, or until their successors are elected and qualified. Each of the nominees is currently a director and was elected at our last annual stockholders meeting on December 15, 2006. If any of the nominees should become unavailable to serve on the board, the proxy holders will vote your shares for a board-approved substitute, or the board may reduce the number of directors.

#### THE NOMINEES

<b><u>Name</u></b>	<b><u>Age</u></b>	<b><u>Position with Palatin</u></b>
Carl Spana, Ph.D	45	Chief executive officer, president and a director
John K.A. Prendergast, Ph.D	53	Director, chairman of the board of directors
Perry B. Molinoff, M.D	67	Director
Robert K. deVeer, Jr. (1) (2) (3)	61	Director
Zola P. Horovitz, Ph.D. (1) (2) (3)	73	Director
Robert I. Taber, Ph.D. (1) (2)	71	Director

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Errol De Souza, Ph.D. (2) (3)	53	Director
J. Stanley Hull	55	Director

- 
- (1) Member of the Audit Committee.
  - (2) Member of the Compensation Committee.
  - (3) Member of the Nominating and Corporate Governance Committee.

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

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

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

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

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

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ROBERT I. TABER, Ph.D. has been a director since May 2001. Dr. Taber began his career in the pharmaceutical industry in 1962, holding a succession of positions within Schering Corporation's biological research group before leaving in 1982 as director of biological research. He has also held a number of increasingly important positions with DuPont Pharmaceuticals and the DuPont Merck Pharmaceutical Company, including director of pharmaceutical research, director of pharmaceutical and biotechnology research, vice president of pharmaceutical research and vice president of extramural research and development. From 1994 to 1998, Dr. Taber held the position of senior vice president of research and development at Synaptic Pharmaceuticals Corporation before founding Message Pharmaceuticals, Inc. in 1998. Dr. Taber earned his Ph.D. in pharmacology from the Medical College of Virginia.

ERROL DE SOUZA, Ph.D. has been a director since April 2003. Dr. De Souza has nearly two decades of experience in the field of drug discovery and development. Dr. De Souza joined Archemix

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Corporation, a biopharmaceutical company focused on aptamer therapeutics, on April 1, 2003. From September 2002 to March 2003, he was president and chief executive officer and a director of Synaptic Pharmaceuticals. As a result of a merger effective March 2003, Synaptic Pharmaceuticals became a wholly-owned subsidiary of H. Lundbeck A/S, an international pharmaceutical company. Prior to that, Dr. De Souza held senior management positions with Aventis, and its predecessor company Hoechst Marion Roussel Pharmaceuticals, and was co-founder of Neurocrine Biosciences, Inc. He is currently a director of the publicly-held life sciences companies IDEXX Laboratories, Inc. and Targacept, Inc. and a professor at the Center for Molecular Biology and Behavioral Neurosciences at Rutgers University. Dr. De Souza received his B.A. (Honors) in physiology and his Ph.D. in neuroendocrinology from the University of Toronto and he received his postdoctoral fellowship in neuroscience from The John Hopkins School of Medicine.

J. STANLEY HULL has been a director since September 2005. Mr. Hull has nearly three decades of experience in the field of sales and marketing. Mr. Hull joined GlaxoSmithKline, a research-based pharmaceutical company, in October 1987 and is currently Senior Vice President for the US Pharmaceuticals - RTP Business Division. Prior to his current position, he served in the R&D organization of GlaxoSmithKline as Vice President and Worldwide Director of Therapeutic Development and Product Strategy-Neurology and Psychiatry. Prior to that, he was Vice President of Marketing - Infectious Diseases and Gastroenterology for Glaxo Wellcome Inc. Mr. Hull started his career in the pharmaceutical industry with SmithKline and French Laboratories in 1978. Mr. Hull received his B.S. in business administration from the University of North Carolina at Greensboro.

## CORPORATE GOVERNANCE

### NOMINATION OF DIRECTORS

The Nominating and Corporate Governance Committee conducts an annual director performance evaluation process and proposes nominees for election as directors. Nominees must be well-regarded and experienced participants in their field(s) of specialty, familiar at the time of their appointment with our business, willing to devote the time and attention necessary to deepen and refine their understanding of Palatin and the issues we face, and must have an understanding of the demands and responsibilities of service on a public company board of directors. The committee considers individual merits, such as personal integrity and sound judgment, business and professional skills and experience, independence, knowledge of the industry in which we operate, possible conflicts of interest, diversity, the extent to which the candidate would fill a present need on the board and concern for the long-term interests of the stockholders. The committee also considers each candidate in relation to existing or other potential members of the board, with a view to establishing a well-rounded, diverse, knowledgeable, and experienced board.

The committee will consider stockholder recommendations of nominees if they are accompanied by a comprehensive written resume of the recommended nominee's business experience and background, and a signed consent from the recommended nominee stating that he or she is willing to be considered as a nominee and, if nominated and elected, will serve as a director. The committee will consider candidates recommended by stockholders on the same basis as candidates from other sources. The committee may retain outside consultants to assist in identifying suitable director candidates. Stockholders may send their written recommendations with the required documentation to our executive offices at 4C Cedar Brook Drive, Cranbury, NJ 08512, Attention: Secretary, no later than the deadline for stockholder proposals specified under



"Stockholder Proposals For Next Annual Meeting" on page 43.

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**DIRECTOR INDEPENDENCE**

The board of directors has determined that all of the directors and nominees except for Dr. Spana (our chief executive officer and president) are independent directors, as defined in Section 121A of the American Stock Exchange ("AMEX") original listing requirements.

**THE BOARD AND ITS COMMITTEES**

*Committees and meetings.* The board has an Audit Committee, a Compensation Committee and a Nominating and Corporate Governance Committee. During the fiscal year ended June 30, 2007, the board met eight times. Four of the meetings were attended by directors in person and four were meetings in which one or more directors participated by telephone. During the fiscal year ended June 30, 2007, the Audit Committee met four times, the Compensation Committee met twice and the Nominating and Corporate Governance Committee met once. A pricing committee, consisting of Drs. Prendergast and Horovitz and Mr. deVeer, was appointed by the board in connection with an underwritten offering of our common stock in February 2007, and met twice. Each director has attended at least 75% of the total number of meetings of the board and committees of the board on which he served. With the exception of Drs. Prendergast and Spana, with Dr. Spana participating by telephone, the directors did not attend the 2006 annual meeting of stockholders.

*Audit Committee.* The Audit Committee reviews the engagement of the independent registered public accounting firm and reviews the independence of the independent registered public accounting firm. The Audit Committee also reviews the audit and non-audit fees of the independent registered public accounting firm and the adequacy of our internal control procedures. The Audit Committee is currently composed of three non-employee directors, Mr. deVeer and Drs. Horovitz and Taber. The board has determined that the members of the Audit Committee are independent, as defined in Section 121B(2) of the AMEX listing requirements, and satisfy the requirements of the AMEX as to financial literacy and expertise. The board has determined that at least one member of the committee, Mr. deVeer, is an Audit Committee financial expert as defined by the Securities and Exchange Commission (the "SEC"). The responsibilities of the Audit Committee are set forth in a written charter adopted by the board, a copy of which is available on our web site at [www.palatin.com](http://www.palatin.com). The report of the Audit Committee appears under Item Two below.

*Compensation Committee.* The Compensation Committee reviews and recommends to the board on an annual basis employment agreements and compensation for our officers, directors and some employees, and administers our 2005 Stock Plan and the options still outstanding which were granted under previous stock option plans. The Compensation Committee is composed of Mr. deVeer and Drs. Horovitz, Taber and De Souza. The report of the Compensation Committee appears below, in our discussion of executive compensation.

The Compensation Committee does not have a written charter. The committee administers our 2005 Stock Plan, under which it may delegate to an officer its authority to grant stock options and rights to officers and employees, except that it cannot authorize an officer to make grants to himself. Our chief financial officer and our Director of Human Resources and Administration support the committee in its work by gathering, analyzing and presenting data on Palatin's compensation arrangements and compensation in the marketplace. During the fiscal year ended June 30, 2007, the committee retained Ernst & Young LLP as an independent consultant to advise it on marketplace trends in executive compensation and the determination of executive officer compensation.

*Nominating and Corporate Governance Committee.* The Nominating and Corporate Governance Committee assists the board in recommending nominees as described above, and in determining the composition of committees. It also reviews, assesses and makes recommendations to the board

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concerning policies and guidelines for corporate governance, including relationships of the board, the stockholders and management in determining Palatin's direction and performance. The responsibilities of the Nominating and Corporate Governance Committee are set forth in a written charter adopted by the board, a copy of which is available on our web site at [www.palatin.com](http://www.palatin.com). The Nominating and Corporate Governance Committee is composed of Mr. deVeer and Drs. Horovitz and De Souza, each of whom meets the independence requirements currently established by the AMEX.

*Duration of office.* Unless a director resigns, all directors hold office until the next annual meeting of stockholders or until their successors have been elected and qualified. Directors serve as members of committees as the board determines from time to time.

## **STOCKHOLDER COMMUNICATION WITH DIRECTORS**

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

## **CODE OF CORPORATE CONDUCT AND ETHICS**

We have adopted a code of corporate conduct and ethics that applies to all of our directors and employees, including our chief executive officer and chief financial officer. You can view the code of corporate conduct and ethics at our website, [www.palatin.com](http://www.palatin.com). We will disclose any amendments to, or waivers from, provisions of the code of corporate conduct and ethics that apply to our directors, principal executive and financial officers in a current report on Form 8-K, unless the rules of the AMEX permit website posting of any such amendments or waivers.

## **DIRECTOR COMPENSATION**

*Non-employee directors' initial option grants.* When non-employee directors are first elected to the board, they receive an option to purchase 20,000 shares of common stock with an exercise price equal to the market value on the date of grant. These options vest as to 25% of the option per year, starting on the date of grant. They expire ten years from the date of grant.

*Non-employee directors' annual option grants.* On July 1, the first day of each fiscal year, the chairman of the board receives an option to purchase 40,000 shares of common stock and each other non-employee director receives an option to purchase 20,000 shares of common stock, all with an exercise price equal to the closing price on the preceding business day. These options vest in twelve monthly installments beginning July 31. They expire 10 years from the date of grant.

*Non-employee directors' cash compensation.* Dr. Prendergast serves as chairman of the board and receives an annual retainer of \$60,000, payable quarterly. Effective January 1, 2007, other non-employee directors receive an annual retainer of \$30,000, payable on a quarterly basis, with the Audit Committee chairperson and Compensation Committee chairperson receiving an additional \$4,000 and \$2,000, respectively, payable on a quarterly basis. Prior to January 1, 2007, non-employee directors other than Dr. Prendergast received an annual retainer of \$8,000, payable on a quarterly basis, plus \$2,000 per in-person board meeting, \$300 per telephonic board meeting and \$500 per committee meeting, with committee chairpersons receiving an additional \$500 per committee meeting.

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

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*Employee directors.* Employee directors are not separately compensated for services as directors, but are reimbursed for expenses incurred in performing their duties as directors, including attending all meetings of the board and any committees on which they serve.

*Director compensation table.* The following table sets forth the compensation we paid to all directors during the fiscal year ended June 30, 2007, except for Dr. Spana, whose compensation is set forth under Executive Compensation below. He did not receive any separate compensation for his services as a director.

Name	Fees earned or paid in cash (\$)	Option awards (\$) (1) (2)	Total (\$)
John K.A. Prendergast, Ph.D	45,000	66,496	111,496
Perry B. Molinoff, M.D	21,000	31,666	52,666
Robert K. deVeer, Jr	25,500	31,666	57,166
Zola P. Horovitz, Ph.D	22,500	31,666	54,166
Robert I. Taber, Ph.D	24,000	31,666	55,666
Errol De Souza, Ph.D	21,500	31,666	53,166
J. Stanley Hull	19,000	31,666	50,666

(1) Amounts in this column represent compensation expense we recognized in fiscal 2007 under Statement of Financial Accounting Standards No. 123R, Share-Based Payment (SFAS 123R). For a description of the assumptions we used to calculate these amounts, see note 9 to the consolidated financial statements in our annual report on Form 10-K for the fiscal year ended June 30, 2007. The option award expense recorded in fiscal 2007 for each director is the grant date fair value of each option award.

(2) The aggregate number of shares under option awards outstanding at fiscal year end for each director was:

Dr. Prendergast	477,167
Dr. Molinoff	314,583
Mr. deVeer	254,440
Dr. Horovitz	145,000
Dr. Taber	140,000
Dr. De Souza	98,750
Mr. Hull	46,667

**ITEM TWO: RATIFICATION OF THE APPOINTMENT OF KPMG LLP  
AS OUR INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

We recommend voting FOR the ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending June 30, 2008. KPMG served as our independent registered public accounting firm for the fiscal year ended June 30, 2007. We expect that a representative of KPMG will attend the annual meeting. The representative will have an opportunity to

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make a statement, if he or she desires, and will be available to respond to appropriate questions from stockholders.

*Audit Fees.* For the fiscal year ended June 30, 2007, KPMG billed us a total of \$367,000 for professional services rendered for the audit of our annual consolidated financial statements, review of our consolidated financial statements in our Forms 10-Q, evaluation of the effectiveness of our internal control over financial reporting and services provided in connection with regulatory filings. For the fiscal year ended June 30, 2006, the total billed for the same services was \$299,000.

*Audit-Related Fees.* For the fiscal years ended June 30, 2007 and 2006, KPMG did not perform or bill us for any audit-related services.

*Tax Fees.* For the fiscal year ended June 30, 2007, we anticipate that KPMG will bill us a total of \$16,000 for professional services rendered for tax compliance, tax advice and tax planning. For the fiscal year ended June 30, 2006, KPMG billed us \$15,000 for professional services rendered for tax compliance, tax advice and tax planning.

*All Other Fees.* KPMG did not perform or bill us for any services other than those described above for the fiscal years ended June 30, 2007 and 2006.

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

Before engaging the independent registered public accounting firm for the next year's audit, management will submit to the Audit Committee for approval an estimate of fees for services expected to be rendered during that year in each of four categories:

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

The Audit Committee pre-approves fees for each category of service. The fees are budgeted and the Audit Committee requires the independent registered public accounting firm and management to report actual fees versus the budget periodically throughout the year by category of service. During the year, circumstances may arise when it may become necessary to engage the independent registered public accounting firm for additional services not contemplated in the original pre-approval. In those instances,

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the Audit Committee requires specific pre-approval before engaging the independent registered public accounting firm.

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

In the event the stockholders do not ratify the appointment of KPMG as our independent registered public accounting firm, the Audit Committee will reconsider its appointment.

### REPORT OF THE AUDIT COMMITTEE

We have reviewed and discussed the audited consolidated financial statements for the fiscal year ended June 30, 2007 with Palatin's management and have discussed with KPMG LLP the matters required to be discussed by Statement on Auditing Standards No. 61, Communication with Audit Committees. In addition, we have received from KPMG LLP the written disclosures and the letter required by the Independence Standards Board Standard No. 1, Independence Discussions with Audit Committees, and we have discussed with KPMG LLP their independence.

Based on these reviews and discussions, we recommended to the board of directors that the audited consolidated financial statements be included in Palatin's annual report on Form 10-K for the fiscal year ended June 30, 2007.

#### THE AUDIT COMMITTEE

Robert K. deVeer, Jr., Chairman

Zola P. Horovitz, Ph.D.

Robert I. Taber, Ph.D.

### ITEM THREE: APPROVAL OF AN INCREASE IN COMMON STOCK AVAILABLE FOR ISSUANCE UNDER OUR 2005 STOCK PLAN

#### THE 2005 STOCK PLAN

*Purposes of the plan.* The plan is intended to use ownership of our common stock to attract potential employees, directors and consultants and to induce them to work for the benefit of Palatin, and to provide additional incentive for employees, directors and consultants to promote the success of Palatin.

*Administration of the plan.* The plan administrator is the Compensation Committee, which may delegate its authority to administer the plan.

*Participants.* Participation in the plan is limited to those employees, non-employee directors and consultants of Palatin or its subsidiaries to whom the administrator grants any form of stock rights under the plan. We currently have 66 employees, including three executive officers, and seven non-employee directors, who are eligible to participate.

*Forms of stock rights.* The plan contains specific provisions for stock options and stock grants. Those provisions are explained below. The plan also allows us to grant other kinds of stock-based awards, such as restricted stock units, stock appreciation rights and phantom stock awards. A restricted stock unit is the right to have shares of stock issued upon the satisfaction of specified performance conditions or a specified vesting period. A stock appreciation right is the right to receive the value of a given number of shares of stock without actually purchasing the shares. The holder receives cash and/or stock equal to the difference between the initial share price and a subsequent market price. A phantom stock award is the

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right to receive shares of stock at a later date. We have not previously used any form of equity compensation or incentives other than common stock purchase options and restricted stock units, but we will use alternative forms if the administrator determines that they would be more effective in carrying out the purposes of the plan.

*Amendment of the plan and agreements.* The stockholders may amend the plan. The administrator of the plan may also amend it at any time, however, some amendments may require stockholder approval, depending on laws, regulations and stock exchange rules in effect at the time of the amendment. For instance, under the rules of the AMEX, on which our common stock is currently listed, stockholder approval is required for any material amendment to the plan. A material amendment under the AMEX rules includes any material increase in the number of shares to be issued under the plan (other than to reflect a reorganization, stock split, merger, spinoff or similar transaction).

No amendment of the plan may, without the participant's consent, adversely affect agreements with participants under the plan which are executed before the amendment. The administrator may, with the participant's consent, amend outstanding agreements for stock rights under the plan.

*Termination of the plan.* The plan will terminate on March 10, 2015. The stockholders or the board may terminate the plan earlier, but earlier termination will not affect any agreements with participants under the plan which are executed before the termination.

*Dissolution or liquidation.* All outstanding stock rights will terminate upon Palatin's dissolution or liquidation, but the participant or the participant's survivors will have the right to exercise the vested portion of outstanding options or to accept other stock rights immediately before the dissolution or liquidation.

*Shares subject to the plan.* The plan had an initial pool of 5,000,000 shares of our common stock available for grants. In the event of any change in our capital structure which affects our common stock, such as a stock split, stock dividend, recapitalization or business combination, the administrator will adjust the number of shares available to reflect the change (see Adjustments below). Every grant of stock-based rights, or the issuance of shares to a participant, will reduce the pool of shares available under the plan by the number of shares subject to the grant or actually issued. If any kind of grant or portion of a grant under the plan terminates for any reason without being exercised, the unissued shares subject to that grant will go back in to the pool and be available again for other grants. Also, if we buy back shares (at no more than the original issuance price) which we issued under a stock grant or any other stock-based award, then the shares which we buy back will go back in to the pool.

*Adjustments.* Unless otherwise provided under an individual stock right, the administrator (or the board of directors of a successor to Palatin) will adjust all stock rights to preserve their value in the event of stock dividends and stock splits, corporate transactions such as a merger, consolidation or sale of substantially all our assets, or a recapitalization or reorganization.

*Transfer of stock rights.* Unless the administrator otherwise approves, stock rights are not transferable except by will or the laws of descent and distribution, and are exercisable only by the participant during his or her lifetime.

*Registration of shares and resale restrictions.* Unless and until we register the shares to be issued under the plan with the SEC, they will be restricted shares, which the holder cannot sell or transfer without an exemption from registration requirements. We have registered the initial pool of 5,000,000 shares issuable under the plan on Form S-8. If the amendment is approved, we intend to register the additional stock issuable under the plan on Form S-8.

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## STOCK OPTIONS UNDER THE PLAN

*Qualified and non-qualified options.* The plan provides for the grant of options which are qualified incentive stock options under Section 422 of the Internal Revenue Code, and of non-qualified options, which do not meet the requirements of Section 422. Qualified options can be granted only to employees, while non-qualified options can be granted to employees, non-employee directors, and consultants. Although the principal difference between qualified and non-qualified options lies in the tax consequences to the option holder (see Tax Consequences below), the qualified options are also subject to several restrictions which the plan is designed to accommodate. Those restrictions are included in the following descriptions of plan features.

*Option prices.* For non-qualified options, the exercise price per share must be at least the fair market value of common stock on the applicable date. For qualified options, the exercise price per share must be at least the fair market value of common stock on the date of grant, except that if the recipient owns more than 10% of our outstanding common stock before the grant, the exercise price per share must be at least 110% of the fair market value of common stock on the date of grant. The fair market value of common stock is the closing market price of common stock on the stock exchange or in the over-the-counter market on the applicable date. The closing market price of our common stock on October 25, 2007 was \$0.38 per share. Recipients will pay us the exercise price for common stock purchasable under an option only if and when they choose to exercise the option.

*Option vesting and expiration.* The administrator determines the vesting schedule and expiration date of each option. Vesting may be immediate or on a fixed schedule, or may be subject to the occurrence of certain conditions or the attainment of stated goals or events. There is no minimum term for which an option must be exercisable. For non-qualified options, the plan does not state a maximum term. For qualified options, the maximum term is 10 years from the date of grant, except that if the recipient owns more than 10% of our outstanding common stock before the grant, the maximum term is five years from the date of grant. Although the plan itself expires on March 15, 2015, options granted before the plan expires will continue to be exercisable until the expiration date of each individual option. Options may be subject to early termination as described below.

*Option exercise.* An option holder may exercise all or any part of the vested portion of an option by delivering written notice, along with payment in U.S. funds by cash or check of the exercise price for the number of shares specified. The administrator may provide for other methods of payment.

*Early termination.* Unless the administrator provides otherwise, if an option holder ceases to serve as an employee, non-employee director or consultant of Palatin or its affiliates, whether voluntarily or otherwise, that option holder's non-vested options will terminate immediately, and vested options will expire within the time designated in each holder's option agreement. For qualified options, the vested portion will expire no more than three months after termination of the relationship with Palatin. If the relationship terminated due to death or disability, the vested portion will expire one year after termination. If we terminate the relationship for cause (as defined below), then that holder's outstanding options will terminate immediately. For purposes of the plan, cause includes dishonesty, insubordination, substantial malfeasance or non-feasance of duty, unauthorized disclosure of confidential information, breach of any provision of any employment, consulting, advisory, non-disclosure, non-competition or similar agreement, and conduct substantially prejudicial to Palatin's business.

*Tax consequences.* Options granted under the plan may be either tax-qualified employee incentive stock options, or non-qualified options.

In the case of qualified options, neither grant nor exercise results in compensation income to the employee. We recognize on our books a compensation expense for accounting purposes

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calculated in accordance with SFAS 123R, but do not take an expense deduction on our tax return. If the employee holds the stock issued on exercise for a holding period of at least two years after the date of grant, or one year after the exercise (whichever is longer), then upon subsequent sale of the stock, the employee will recognize as capital gains income (not compensation income) the difference between the sale price and the exercise price. If the employee sells the stock before the prescribed holding period has passed (a disqualifying disposition), then the employee will recognize as compensation income the difference between the exercise price and the fair market value of the stock at the time of exercise. That compensation income will be added to the basis of the option stock in determining the capital gain, if any, on the disqualifying disposition. Employees who receive qualified

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options must agree to notify us of any disqualifying disposition which allows us to take a compensation deduction on our tax return.

In the case of non-qualified options, the grant does not result in compensation income for the option holder. We recognize on our books a compensation expense for accounting purposes calculated in accordance with SFAS 123R, but do not take an expense deduction on our tax return. The exercise of a non-qualified option results in the option holder recognizing as compensation income the difference between the exercise price and the fair market value of the stock at the time of exercise. We would have a compensation deduction at that time in the same amount on our tax return.

### STOCK GRANTS UNDER THE PLAN

*Stock grant terms.* The administrator may grant shares of stock directly to a participant. The terms of a stock grant may require the participant to pay a specified price for the stock, or may grant the stock without any purchase price. Vesting may be immediate or on a fixed schedule, or may be subject to the occurrence of certain events or the attainment of stated goals.

*Early termination.* If a participant ceases to serve as an employee, non-employee director or consultant of Palatin or its affiliates, whether voluntarily or otherwise, any offered stock grants which the participant has not accepted will terminate immediately. For accepted stock grants of restricted stock, we will continue to be able to exercise our repurchase rights (if any) until the vesting lapses under the terms of the stock grant agreement. If we terminate the relationship for cause (as defined below), then we will immediately have the right to repurchase any stock issued under a stock grant, for the original purchase price. For purposes of the plan, cause includes dishonesty, insubordination, substantial malfeasance or non-feasance of duty, unauthorized disclosure of confidential information, breach of any provision of any employment, consulting, advisory, non-disclosure, non-competition or similar agreement, and conduct substantially prejudicial to Palatin's business.

*Tax consequences.* Upon the grant of a stock award which is subject to vesting conditions, the recipient does not recognize any income, and we recognize on our books for accounting purposes a compensation expense calculated in accordance with SFAS 123R, but do not take an expense deduction on our tax return. The issuance of stock upon vesting of a stock award would result in income to the recipient and an expense deduction on our tax return for us.

### RESTRICTED STOCK UNITS UNDER THE PLAN

*Restricted stock unit terms.* The administrator may grant shares of stock under restricted stock unit agreements, providing for vesting, and concurrent issuance, of shares of common stock without further payment upon the satisfaction of specified performance conditions or a specified vesting period.

*Early termination.* If a participant ceases to serve as an employee, non-employee director or consultant of Palatin or its affiliates, whether voluntarily or otherwise, any restricted stock units which

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have not vested will terminate immediately. Restricted stock unit agreements lapse if any employee of Palatin voluntarily ceases to serve as an employee or is terminated for cause (as defined below), but may accelerate if an employee is terminated for other reasons, including a reduction in force or change in control. For purposes of the plan, cause includes dishonesty, insubordination, substantial malfeasance or non-feasance of duty, unauthorized disclosure of confidential information, breach of any provision of any employment, consulting, advisory, non-disclosure, non-competition or similar agreement, and conduct substantially prejudicial to Palatin's business.

*Tax consequences.* Upon the grant of a restricted stock unit, the recipient does not recognize any income. We recognize on our books a compensation expense for accounting purposes calculated in accordance with SFAS 123R, but do not take an expense deduction on our tax return. The issuance of stock upon vesting of a restricted stock unit would result in income to the recipient and an expense deduction on our tax return for us.



## EQUITY COMPENSATION PLAN INFORMATION AS OF JUNE 30, 2007

Plan category	Number of securities to be issued upon exercise of outstanding options, warrants and rights	Weighted-average exercise price of outstanding options, warrants and rights	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))
	(a)	(b)	(c)
Equity compensation plans approved by security holders	7,363,654	\$2.89 <sup>(1)</sup>	1,820,777
Equity compensation plans not approved by security holders	646,967 <sup>(2)</sup>	\$1.84	0
Total	8,010,621		1,820,777

(1) Excludes an aggregate of 975,000 shares issuable upon vesting of restricted stock units. Restricted stock units will vest in 325,000 share increments if our closing share price is greater than \$4.00, \$6.00 and \$8.00 for twenty consecutive trading days prior to October 6, 2010.

(2) Consists of options granted to a former director for a total of 6,066 shares with exercise prices from \$5.44 to \$7.50 per share with an expiration date of December 4, 2007; common stock purchase warrants granted to private offering placement agents to purchase an aggregate of 535,901 shares, with exercise prices from \$1.37 to \$1.54 per share, of which 77,254 were exercised in July 2007 and 458,647 expire on November 15, 2007; and common stock purchase warrants granted to licensors and service providers to purchase an aggregate of 105,000 shares, with exercise prices from \$2.82 to \$4.00 per share and expiration dates from November 30, 2007 to May 13, 2012.

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**AWARDS GRANTED TO MANAGEMENT, DIRECTORS AND EMPLOYEES**

The following table shows all outstanding options and restricted stock units as of October 25, 2007, whether currently exercisable or not, granted under the 2005 Stock Plan to our officers, directors and employees.

OUTSTANDING AWARDS TABLE 2005 STOCK PLAN

Name and Position	Number of option shares	Number of restricted stock units
Carl Spana, Ph.D., chief executive officer, president and director	283,000	375,000
Stephen T. Wills, MST, CPA, chief financial officer and executive vice president of operations	223,000	300,000

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Trevor Hallam, Ph.D., executive vice president of research and development	100,000	300,000
Shubh D. Sharma, Ph.D., vice president and chief scientific officer	43,750	
John K.A. Prendergast, Ph.D., director and chairman of the board	126,000	
Perry B. Molinoff, M.D., director	40,000	
Robert K. deVeer, Jr., director	40,000	
Zola P. Horovitz, Ph.D., director	40,000	
Robert I. Taber, Ph.D., director	40,000	
Errol de Souza, Ph.D., director	40,000	
J. Stanley Hull, director	56,667	
THREE CURRENT EXECUTIVE OFFICERS AS A GROUP: <sup>(1)</sup>	606,000	975,000
SEVEN NON-EXECUTIVE DIRECTORS AS A GROUP:	382,667	
NON-MANAGEMENT EMPLOYEES AS A GROUP:	1,495,346	1,573,915

(1) Does not include the options granted to Dr. Sharma, who ceased to be an officer and employee on September 30, 2007. If not exercised, his options will expire on December 30, 2007.

### INCREASE IN PLAN SHARES

The board has authorized an increase in the number of shares of common stock available for issuance under the 2005 Stock Plan from 5,000,000 shares to 10,000,000 shares. This increase in the number of shares available under the plan requires stockholder approval. As of October 25, 2007, options to purchase 2,534,013 shares are outstanding and unvested stock awards for 2,548,915 shares are outstanding under the plan. Options to purchase 27,056 shares have been exercised under the plan. The number of shares issued or potentially issuable under all options and stock awards is 5,109,984, which exceeds the number of shares available for issuance under the plan by 109,984. The board expects that

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vested options for 138,204 shares will expire on December 30, 2007, leaving 4,971,780 shares issued or issuable under outstanding options and stock awards and 28,220 shares available for future grants, assuming no new awards are granted through December 30, 2007. In the event that more than 28,220 of the options scheduled to expire on December 30, 2007 are exercised, and the amendment increasing plan shares is not approved, effective January 1, 2008 the awards of restricted stock units to non-management employees made on September 25, 2007 aggregating 1,573,915 shares will be reduced pro rata to cover the shortfall.

### INTEREST OF MANAGEMENT IN SHARE INCREASE

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The board has not granted or agreed to grant any options or stock awards under the plan to members of management, other than the amounts shown above. Although the non-employee directors normally receive an annual grant of options for 20,000 shares and the chairman of the board normally receives an annual grant of options for 40,000 shares in July of each year (see Director Compensation above), the directors and the chairman will receive no further options under the plan unless and until the plan is amended by the vot