

PALATIN TECHNOLOGIES INC
Form 10-Q
November 14, 2012

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 September 30, 2012

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.

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(Exact name of registrant as specified in its charter)

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

4B Cedar Brook Drive 08512
Cranbury, New Jersey
(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 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 S 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 S 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 S
(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 S

As of November 12, 2012, 38,947,912 shares of the registrant's common stock, par value \$.01 per share, were outstanding.

PALATIN TECHNOLOGIES, INC.

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PART I - FINANCIAL INFORMATION**Item 1. Financial Statements****PALATIN TECHNOLOGIES, INC.****and Subsidiary****Consolidated Balance Sheets**

(unaudited)

	September 30, 2012	June 30, 2012
ASSETS		
Current assets:		
Cash and cash equivalents	\$33,461,066	\$3,827,198
Accounts receivable	31,437	27,631
Restricted cash	—	350,000
Prepaid expenses and other current assets	851,844	532,010
Total current assets	34,344,347	4,736,839
Property and equipment, net	299,735	318,653
Other assets	58,748	324,992
Total assets	\$34,702,830	\$5,380,484
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Capital lease obligations	\$22,707	\$22,277
Accounts payable	321,621	294,894
Accrued expenses	1,285,215	2,706,496
Accrued compensation	—	433,333
Total current liabilities	1,629,543	3,457,000
Capital lease obligations	14,068	19,909
Deferred rent	63,372	72,677
Total liabilities	1,706,983	3,549,586
Stockholders' equity:		
Preferred stock of \$0.01 par value – authorized 10,000,000 shares; Series A Convertible; issued and outstanding 4,697 shares as of September 30, 2012 and 4,997 as of June 30, 2012	47	50

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Common stock of \$0.01 par value – authorized 200,000,000 shares; issued and outstanding 38,947,912 shares as of September 30, 2012 and 34,900,591 as of June 30, 2012, respectively	389,479	349,006
Additional paid-in capital	282,302,585	240,725,127
Accumulated deficit	(249,696,264)	(239,243,285)
Total stockholders' equity	32,995,847	1,830,898
Total liabilities and stockholders' equity	\$34,702,830	\$5,380,484

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 September 30,	
	2012	2011
REVENUES:	\$3,806	\$27,217
OPERATING EXPENSES:		
Research and development	2,343,313	2,284,383
General and administrative	1,061,016	1,109,382
Total operating expenses	3,404,329	3,393,765
Loss from operations	(3,400,523)	(3,366,548)
OTHER INCOME (EXPENSE):		
Investment income	14,371	15,040
Interest expense	(2,282)	(2,973)
Increase in fair value of warrants	(7,069,165)	—
Gain on disposition of supplies and equipment	4,620	—
Total other income (expense), net	(7,052,456)	12,067
NET LOSS	\$(10,452,979)	\$(3,354,481)
Basic and diluted net loss per common share	\$(0.15)	\$(0.10)
Weighted average number of common shares outstanding used in computing basic and diluted net loss per common share	71,669,170	34,900,591

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

PALATIN TECHNOLOGIES, INC.**and Subsidiary****Consolidated Statements of Cash Flows**

(unaudited)

	Three Months Ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$(10,452,979)	\$(3,354,481)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	27,467	255,002
Gain on sale of supplies and equipment	(4,620)	—
Stock-based compensation	176,103	210,273
Increase in fair value of warrants	7,069,165	—
Changes in operating assets and liabilities:		
Accounts receivable	(3,806)	131,149
Prepaid expenses, restricted cash and other assets	296,410	(41,397)
Accounts payable	26,727	(160,702)
Accrued expenses, compensation and deferred rent	(1,863,919)	(988,397)
Unearned revenue	—	(27,217)
Net cash used in operating activities	(4,729,452)	(3,975,770)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of supplies and equipment	4,620	—
Purchases of property and equipment	(8,550)	—
Net cash used in investing activities	(3,930)	—
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on capital lease obligations	(5,411)	(10,256)
Payment of withholding taxes related to restricted stock units	(34,785)	—
Proceeds from sale of common stock units	34,407,446	—
Net cash provided by (used in) financing activities	34,367,250	(10,256)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	29,633,868	(3,986,026)
CASH AND CASH EQUIVALENTS, beginning of year	3,827,198	18,869,639
CASH AND CASH EQUIVALENTS, end of year	\$33,461,066	\$14,883,613
SUPPLEMENTAL CASH FLOW INFORMATION:		
Cash paid for interest	\$2,013	\$2,973

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, pigmentation disorders 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, pulmonary diseases, cardiovascular diseases and inflammatory diseases. The Company has an exclusive global research collaboration and license agreement with AstraZeneca AB (AstraZeneca) to commercialize compounds that target melanocortin receptors for the treatment of obesity, diabetes and related metabolic syndrome, with drug candidates in preclinical evaluation.

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 the Company’s license agreements with AstraZeneca and any other companies.

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 has an

accumulated deficit as of September 30, 2012 and incurred a net loss for the three months ended September 30, 2012. The Company anticipates incurring additional losses in the future as a result of spending on its development programs. To achieve profitability, 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 discussed in Note 6, on July 3, 2012, the Company closed on a \$35,000,000 private placement. The offering consisted of the sale of 3,873,000 shares of the Company's common stock, Series A 2012 warrants to purchase up to 31,988,151 shares of the Company's common stock, and Series B 2012 warrants to purchase up to 35,488,380 shares of the Company's common stock. The net proceeds to the Company after deducting the offering expenses were \$34,407,446.

As of September 30, 2012, the Company's cash and cash equivalents were \$33.5 million. The Company intends to utilize existing capital resources for general corporate purposes and working capital, including its clinical trial program with bremelanotide for FSD, preclinical and clinical development of its peptide melanocortin receptor-1 program, preclinical and clinical development of its PL-3994 program and preclinical and clinical development of other portfolio products.

Management believes that the Company's existing capital resources will be adequate to fund its currently planned operations, including completing analysis of results of the Company's Phase 2B clinical trial with bremelanotide for FSD and submitting an end-of-phase 2 meeting request to the U.S. Food and Drug Administration (FDA), through at least calendar year 2013. Phase 3 clinical trials of bremelanotide for FSD, which will not commence before calendar year 2013, will require significant additional resources and capital to complete.

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 fund sponsored by a large financial institution. For the three months ended September 30, 2012 and 2011, 100% of revenues were from AstraZeneca.

PALATIN TECHNOLOGIES, INC.

and Subsidiary

Notes to Consolidated Financial Statements

(unaudited)

(2) BASIS OF PRESENTATION:

The accompanying unaudited consolidated financial statements have been prepared in accordance with 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 to present fairly the Company's financial position as of September 30, 2012, and its results of operations and its cash flows for the three months ended September 30, 2012 and 2011. The results of operations for the three months ended September 30, 2012 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, 2013.

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, 2012, filed with the Securities and Exchange Commission (SEC), which includes consolidated financial statements as of June 30, 2012 and 2011 and for each of the fiscal years in the three-year period ended June 30, 2012.

(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 significant intercompany accounts and transactions have been eliminated in consolidation.

Use of Estimates – The preparation of consolidated financial statements in conformity with U.S. generally accepted accounting principles 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 \$32,980,347 and \$3,344,146 in a money market fund at September 30, 2012 and June 30, 2012, respectively.

Fair Value of Financial Instruments – The Company's financial instruments consist primarily of cash equivalents, accounts receivable, accounts payable, and capital lease obligations. Management believes that the carrying value of these assets and liabilities are representative of their respective fair values based on the short-term nature of these instruments.

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 equi