CHASE CORP
Form 10-Q
January 09, 2012
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the Quarterly Period Ended November 30, 2011

Commission File Number: 1-9852

CHASE CORPORATION

(Exact name of registrant as specified in its charter)

Massachusetts	**11-1797126**
(State or other jurisdiction of incorporation of organization)	(I.R.S. Employer Identification No.)

26 Summer Street, Bridgewater, Massachusetts 02324

(Address of Principal Executive Offices, Including Zip Code)

(508) 819-4200

(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, and (2) has been subject to such filing requirements for the past 90 days. YES x NO o

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 x NO o

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

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). YES o NO x

The number of shares of Common Stock outstanding as of December 31, 2011 was 9,040,266.

Table of Contents

CHASE CORPORATION

INDEX TO FORM 10-Q

For the Quarter Ended November 30, 2011

Table of Contents

Part 1 FINANCIAL INFORMATION

Item 1 Unaudited Financial Statements

CHASE CORPORATION
CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

In thousands, except share and per share amounts

	November 30, 2011	August 31, 2011
ASSETS		
Current Assets:		
Cash & cash equivalents	$ 12,773	$ 14,982
Accounts receivable, less allowance for doubtful accounts of $460 and $473	18,111	19,103
Inventories	21,660	20,841
Prepaid expenses and other current assets	2,283	1,502
Assets held for sale (Note 12)	994	1,004
Deferred income taxes	559	559
Total current assets	56,380	57,991
Property, plant and equipment, net	29,343	28,594
Other Assets:		
Goodwill	17,834	18,060
Intangible assets, less accumulated amortization of $10,639 and $10,374	15,163	16,185
Cash surrender value of life insurance	6,979	6,915
Restricted investments	759	740
Deferred income taxes	330	332
Other assets	107	92
	$ 126,895	$ 128,909
LIABILITIES AND STOCKHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 8,504	$ 7,276
Accrued payroll and other compensation	1,343	2,624
Accrued expenses	3,749	4,237
Accrued income taxes	897	1,387
Dividends payable	3,165	
Current portion of long-term debt	4,400	4,400
Total current liabilities	22,058	19,924
Long-term debt, less current portion	6,417	8,267
Deferred compensation	1,603	1,597
Accumulated pension obligation	6,456	6,713

Other liabilities		103		528
Commitments and Contingencies (Note 8)				
Stockholders Equity:				
First Serial Preferred Stock, $1.00 par value: Authorized 100,000 shares; none issued				
Common stock, $.10 par value: Authorized 20,000,000 shares; 9,042,153 shares at November 30, 2011 and 8,952,910 shares at August 31, 2011 issued and outstanding		904		895
Additional paid-in capital		11,167		10,678
Accumulated other comprehensive loss		(4,948)		(3,666)
Retained earnings		83,135		83,973
Total stockholders equity		90,258		91,880
Total liabilities and stockholders equity	$	126,895	$	128,909

See accompanying notes to the consolidated financial statements

Table of Contents

CHASE CORPORATION
CONSOLIDATED STATEMENTS OF OPERATIONS

(UNAUDITED)

In thousands, except share and per share amounts

Revenues	
Sales	
Royalties and commissions	
Costs and Expenses	
Cost of products and services sold	
Selling, general and administrative expenses	
Operating income	
Interest expense	

(3) Includes 401(k) matching contributions of $2,800 and life/disability insurance premiums of $1,005.

(4) Includes 401(k) matching contributions of $2,538 and life/disability insurance premiums of $1,005.

(5) Includes one pay period of retroactive FY 2001 base salary earnings paid in FY 2002.

(6) Options granted in fiscal year 2002 relate to compensation for fiscal year 2001. No options were granted relative to fiscal 2

Table of Contents

(7) Includes a relocation benefit of $55,000, 401(k) matching contributions of $2,300 and life/disability insurance premiums o

(8) Includes health insurance premiums of $11,952, life/disability insurance premiums of $1,005 and 401(k) matching contribu $6,150.

(9) Includes health insurance premiums of $11,126, life/disability insurance premiums of $1,005 and 401(k) matching contribu $6,000.

(10) Includes health insurance premiums of $10,248, life/disability insurance premiums of $1,005 and 401(k) matching contribu $5,219.

(11) Includes health insurance premiums of $11,952, life/disability insurance premiums of $1,005 and 401(k) matching contribu $6,150.

(12) Includes health insurance premiums of $11,126, life/disability insurance premiums of $1,005 and 401(k) matching contribu $4,950.

(13) Includes health insurance premiums of $10,248, life/disability insurance premiums of $1,005 and 401(k) matching contribu $1,838.

(14) Dr. Molinoff resigned as an officer effective November 3, 2003.

(15) Includes health insurance premiums of $3,639, life/disability insurance premiums of $355 and 401(k) matching contributio $4,311.

(16) Includes health insurance premiums of $10,660, life/disability insurance premiums of $1,005 and 401(k) matching contribu $6,000.

(17) Includes a relocation benefit of $32,809, health insurance premiums of $8,482, life/disability insurance premiums of $838 matching contributions of $4,063.

Option grants in last fiscal year. The following table shows options granted to our named executive officers during the fis ended June 30, 2004. All of the options listed were granted under our 1996 stock option plan, and the underlying security is co stock. All options granted in fiscal 2004 vested as to one third of the shares on the date of grant, and will vest as to the remainin thirds of the shares only upon achievement of performance objectives. The exercise price for each option is equal to the market common stock on the date of grant. We have not granted any SARs.

[TABLE APPEARS ON FOLLOWING PAGE]

Table of Contents

OPTION GRANTS IN LAST FISCAL YEAR

INDIVIDUAL GRANTS					
Name	Number of Securities Underlying Options Granted (#)	% of Total Options Granted to Employees in Fiscal Year	Exercise or Base Price ($/Sh)	Expiration Date	Pote Va An Ap 5
Carl Spana	100,000	17.6%	$3.24	07/16/2013	$20

Stephen T. Wills	80,000	14.1%	$3.24	07/16/2013 |	$16
Shubh D. Sharma	50,000	8.8%	$3.24	07/16/2013 |	$10
Perry B. Molinoff	50,000	8.8%	$3.24	07/16/2013 |	$10

---

* Potential realizable value is shown in response to SEC rules which require the information, for illustration purposes values shown are not representations or projections of future stock prices or the future value of our common stock.

Aggregated option exercises and fiscal year-end option values. No executive officer exercised any options during the fisca ended June 30, 2004. We have not granted any SARs. Fiscal year-end values in the following table are based on the closing pri common stock, as reported on AMEX on June 30, 2004, of $4.21 per share.

AGGREGATED OPTION EXERCISES AND FISCAL YEAR-END OPTION VALUES

Name	Shares Acquired on Exercise	Value Realized	Shares Underlying Unexercised Options at Fiscal Year 2004 End Exercisable	Unexercisable	Value of Unexercised In-the-Money Options at Fiscal Year 2004 Exercisable	Unexer
Carl Spana	0	$0	797,628	83,334	$797,876	$12
Stephen T. Wills	0	$0	584,583	66,667	$489,941	$9
Shubh D. Sharma	0	$0	148,032	46,667	$85,550	$4
Perry B. Molinoff	0	$0	261,250	0	$150,650	

Ten-year option repricings. We did not adjust or amend the exercise price of any stock options during the fiscal year ended Jun We have not granted any SARs. The following table shows all option repricings for all executive officers at any time during the years.

Table of Contents

TEN-YEAR OPTION REPRICINGS

Name	Date	Number of Securities Underlying Options Repriced or Amended (#)	Market Price of Stock at Time of Repricing or Amendment ($)	Exercise Price at Time of Repricing or Amendment ($)	New Exercise Price ($)	Lengt Origi Option Remaini Date Reprici Amend
Carl Spana	3/24/98	74,196	$6.25	$4.96	$1.00	8 years 3
Charles Putnam (1)	3/24/98	74,196	$6.25	$4.96	$1.00	8 years 3
Edward J. Quilty (2)	3/24/98	7,803	$6.25	$4.96	$0.20	9 years 2
Edward J. Quilty	9/27/96	70,257	$10.50	$5.42	$0.20	8 years 3

---

(1) Former executive vice president and chief operating officer.

(2) Former president and chief executive officer.

EMPLOYMENT AGREEMENTS

Carl Spana, Ph.D. and Stephen T. Wills. Dr. Spana and Mr. Wills each entered into an employment agreement with us for period commencing October 1, 2003. Dr. Spana is serving as chief executive officer and president at a salary of $320,000 per y Wills is serving as chief financial officer at a salary of $265,000 per year. Each agreement also provides for:

annual bonus compensation, in an amount to be decided by the compensation committee and approved by the bo on achievement of yearly objectives; and

participation in all benefit programs that we establish, to the extent the employee s position, tenure, salary, age, other qualifications make him eligible to participate.

Table of Contents

Each agreement allows us or the employee to terminate the agreement upon written notice, and contains other provisions for te by the company for cause, or by the employee for good reason or due to a change in control (as these terms are define agreements). Early termination may, in some circumstances, result in severance pay at the salary then in effect, for a period of (Spana) or 18 months (Wills), plus continuation of medical and dental benefits then in effect for 18 months. Termination follov change in control will result in a lump sum payment of two times (Spana) or one and one-half times (Wills) the salary then in e continuation of medical and dental benefits then in effect for 18 months, and immediate vesting of all stock options. Each agre includes non-competition, non-solicitation and confidentiality covenants.

Shubh D. Sharma, Ph.D. Dr. Sharma entered into an employment agreement with us for a two-year period commencing O 2003. Dr. Sharma is serving as a vice president and chief technical officer at a salary of $185,000 per year. His agreement also for:

Table of Contents

bonus compensation based on completion of proprietary peptide libraries, and discretionary incentive bonuses in to be decided by the company; and

participation in all benefit programs that we establish, to the extent the employee s position, tenure, salary, age, other qualifications make him eligible to participate.

The agreement allows us or the employee to terminate the agreement upon written notice, and contains other provisions for ter the company for cause (as defined in the agreement). Early termination may, in some circumstances, result in severance pay then in effect, for a period of nine months. The agreement includes non-competition and confidentiality covenants.

Perry B. Molinoff, M.D. Dr. Molinoff entered into an employment agreement with us for a two-year period commencing S 4, 2001. His agreement automatically renewed for a one-year period unless terminated at least 30 days before the anniversary d

Molinoff served as executive vice president of research and development at a salary of $265,000 per year. He resigned as an of effective November 3, 2003, in order to accept appointment to the position of Vice Provost for Research at the University of Pennsylvania. He therefore no longer receives compensation or benefits under his employment agreement.

COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION INCOMPENSATION DECISIONS

During the fiscal year ended June 30, 2003, Mr. deVeer, Dr. Horovitz and Kevin S. Flannery, a former director, served on compensation committee. During the fiscal year ended June 30, 2004, Mr. deVeer, Dr. Horovitz, Dr. Taber and Dr. De Souza s the compensation committee.

There are no compensation committee interlocks with other companies.

COMPENSATION COMMITTEE REPORT

The compensation committee of the board makes recommendations to the board about compensation of executive officers committee also administers the 1996 stock option plan and may grant options to non-management employees and consultants, board s policy to have the full board review and approve all option grants which the committee recommends for executive offi directors. The committee also reviews and makes recommendations to the board concerning proposed employment agreements executive officers. The committee evaluates performance and determines compensation policies and levels for executive office members of the compensation committee are not, and have never been, employees or executive officers of Palatin. Mr. deVeer on the committee since August 2000, Dr. Horovitz has served on the committee since February 2001, and Dr. Taber has served committee since October 2003. Mr. Flannery served on the committee from August 2000 until his resignation as a director effe October 14, 2003.

Executive compensation policy. Competition for qualified senior management personnel in Palatin s industry is intense. I attract and retain qualified personnel, Palatin must

Table of Contents

offer compensation which is both comparable to similarly situated companies in current salary and benefits, and includes the po substantial rewards if Palatin is successful over the long term. Palatin s aim is to attract, retain and reward executive officers a employees who contribute to its long-term success and to motivate those individuals to enhance long-term stockholder value. It policy to enter into employment agreements with executive officers, preferably with an initial term of two years. To establish th relationship between executive compensation and creation of stockholder value, the board has adopted a total compensation pa comprised of base salary, bonus and stock option awards. Key elements of the compensation philosophy are:

- Palatin pays compensation at levels competitive with other biotechnology companies with which Palatin compet talent.
- Palatin maintains annual incentive opportunities sufficient to provide motivation to achieve specific operating go generate rewards that bring total compensation to competitive levels.
- Palatin provides significant equity-based incentives for executives and other key employees to ensure that they a motivated over the long-term to respond to Palatin s business challenges and opportunities as owners and not ju employees.

Determining executive compensation. The committee usually meets twice per year to review how well management comp
serving Palatin s goals, to make recommendations to the board for any adjustments, and to recommend annual compensation f
coming year. Palatin s chief financial officer and human resources manager gather and report on information about compensat
comparable companies. We review the performance of each executive officer and the financial condition of the company. We t
consider the following major components of executive compensation:

Base salary. The employment agreement with each executive sets an initial base salary, which is competitive in our indu
the executive s experience and qualifications, at the time we enter into the agreement. The committee annually reviews
executive officer s base salary. Among the factors taken into consideration are (1) individual and corporate performanc
of responsibility, (3) prior experience, (4) breadth of knowledge of the industry, and (5) competitive pay practices. If sal
comparable companies appear to have increased, we recommend similar increases, but only if each executive s historic
performance warrants an increase and if the increase is prudent in view of Palatin s financial condition.

Annual bonus. In addition to the competitive base salary, we intend to reward executives each year for the achievement
goals, which may be financial, operational or technological. We consider objectively measurable goals, such as obtainin
investment capital, negotiating valuable contracts, or meeting regulatory requirements, and more subjective goals, such
of management performance and consistency of effort. Palatin s objectives consist of operating, strategic and financial
board considers to be critical to Palatin s overall goal: building stockholder value. Our recommendations for cash bonus
into account Palatin s liquidity and capital resources at the time. Until Palatin s operations generate substantial income
recommend bonuses which consist partly or mainly of stock options. Stock options

Table of Contents

granted as part of bonus compensation will usually be immediately exercisable, or will vest over a shorter time than othe
options.

Long-term incentives. At present, Palatin s only long-term incentive program is its 1996 stock option plan. Palatin does
defined benefit pension plan, and contributions to executives accounts under Palatin s 401(K) plan are limited by fede
regulations. Through option grants, executives receive significant equity incentives to build long-term stockholder value
exercise price of options granted under the plan is at least 100% of fair market value of the common stock on the date of
Employees receive value from these grants only if the common stock appreciates over the long-term. We determine the
option grants based on competitive practices at leading companies in the biotechnology industry and Palatin s philosop
significantly linking executive compensation with stockholder interests.

Fiscal year 2004 compensation. During the fiscal year ended June 30, 2004, we entered into new employment agreements
Spana, Mr. Wills and Dr. Sharma, with annual base salaries of $320,000 per year for Dr. Spana, $265,000 for Mr. Wills and $1
Dr. Sharma. The base salaries for these executive officers, as provided in their employment agreements, reflect comparable sal
for the industry, necessary to engage and retain individuals with their skills. Stock option grants for the executive officers refle
achievement of corporate and development goals. Starting December of 2002, we have made the vesting of a majority of the op
granted to our executive officers contingent on achievement of performance objectives. We granted cash bonuses with respect
2003, but did not pay out these bonuses until the first quarter of fiscal 2004.

The base salary, bonus and grants of stock options for our CEO, Carl Spana, Ph.D., were determined in accordance with th
described above under Determining executive compensation. Dr. Spana s compensation reflects the board s subjective ass
performance, (2) his skills in relation to other CEOs in Palatin s industry, and (3) the board s assessment of Palatin s perform
Considering these factors, the committee set Dr. Spana s base annual salary at $320,000 when we entered into our employmen
with him effective October 1, 2003.

Certain Tax Considerations. Section 162(m) of the Internal Revenue Code limits the company to a deduction for federal i purposes of not more than $1 million of compensation paid to certain executive officers in a taxable year. Compensation above may be deducted if it is performance-based compensation within the meaning of the Code.

Table of Contents

The committee believes that at the present time it is unlikely that the compensation paid to any executive officer in a taxab exceed $1 million. Therefore, the board has not established a policy for determining which forms of incentive compensation aw executive officers will be designed to qualify as performance based compensation.

SUBMITTED BY THE COMPENSATION COMMITTEE

Robert I. Taber, Chairman
Robert K. deVeer, Jr.
Zola P. Horovitz, Ph.D.
Errol De Souza, Ph.D.

STOCK PERFORMANCE GRAPH

The following graph compares the yearly change in the cumulative total shareholder return on our common stock with the total return on the Nasdaq Composite Index and the Nasdaq Biotechnology Index for the last five fiscal years, ending June 30, graph assumes the investment of $100 in each stock or index on June 30, 1999, and the reinvestment of any dividends (we have a dividend).

[GRAPHIC OMITTED; GRAPH DATA SHOWN BELOW]

stock or index:	6/99	6/00	6/01	6/02	6/03	6/04
Palatin common	$100.00	$153.42	$94.25	$43.40	$69.92	$92.27
Nasdaq composite	$100.00	$147.65	$80.46	$54.47	$60.41	$76.24
Nasdaq biotech	$100.00	$239.88	$199.86	$100.56	$132.53	$149.70

Table of Contents

STOCK OWNERSHIP INFORMATION

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

The rules of the SEC (the Securities and Exchange Commission) require us to disclose late filings of reports of stock own changes in stock ownership by our directors and officers. To the best of our knowledge, all of the filings for our directors and o were made on a timely basis in the fiscal year ended June 30, 2004.

BENEFICIAL OWNERSHIP OF MANAGEMENT AND OTHERS

each director, each of the named officers, and all current directors and officers as a group; and

all persons who, to our knowledge, beneficially own more than five percent of the common stock or Series A pre stock.

Beneficial ownership here means direct or indirect voting or investment power over outstanding stock and stock which a per right to acquire now or within 60 days after October 25, 2004. Please see the footnotes for more detailed explanations of the ho Except as otherwise noted, to our knowledge, the persons named in the tables beneficially own and have sole voting and invest over all shares listed.

The common stock has one vote per share and the Series A preferred stock has approximately 38.02 votes per share. Votin calculated on the basis of the aggregate of common stock and Series A preferred stock outstanding as of October 25, 2004. On 2004, 53,980,506 shares of common stock and 11,697 shares of Series A preferred stock were outstanding.

The address for all members of our management is c/o Palatin Technologies, Inc., 4C Cedar Brook Drive, Cranbury, NJ 0 Addresses of other beneficial owners are in the footnotes to the table of beneficial owners.

Table of Contents

MANAGEMENT:

Class	Name of Beneficial Owner	Shares	Percent of Class	Percent of Voting Power
Common	Carl Spana, Ph.D.	907,635(1)	1.7%	*
Common	Stephen T. Wills	666,750(2)	1.2%	*
Common	Shubh D. Sharma, Ph.D.	194,714(3)	*	*
Common	John K.A. Prendergast, Ph.D.	407,840(4)	*	*
Common	Perry B. Molinoff, M.D.	271,750(5)	*	*
Common	Robert K. deVeer, Jr.	203,774(6)	*	*
Common	Zola P. Horovitz, Ph.D.	95,834(7)	*	*
Common	Robert I. Taber, Ph.D.	90,834(8)	*	*
Common	Errol DeSouza, Ph.D.	42,083(9)	*	*
Common	All current directors and executive officers as a group (nine persons):	2,880,714(10)	5.1%	*

*Less than one percent.

(1) Includes 880,962 shares which Dr. Spana has the right to acquire under options.

(2) Includes 651,250 shares which Mr. Wills has the right to acquire under options.

(3) Includes 194,699 shares which Dr. Sharma has the right to acquire under options.

(4) Includes 394,167 shares which Dr. Prendergast has the right to acquire under options.

(5) Includes 261,750 shares which Dr. Molinoff has the right to acquire under options.

(6) Includes 202,774 shares which Mr. deVeer has the right to acquire under options.

(7) Includes 90,834 shares which Dr. Horovitz has the right to acquire under options.

(8) Includes 85,834 shares which Dr. Taber has the right to acquire under options.

(9) Shares which Mr. DeSouza has the right to acquire under options.

(10) Includes 2,565,933 shares which directors and officers have the right to acquire under options.

Table of Contents

5% OR GREATER BENEFICIAL OWNERS:

Class	Name of Beneficial Owner	Shares	Percent of Class	Percent of Voting Power
Common	ProQuest(1)	6,161,972(2)	11.4%	9.3%
Common	Lurie Investments(3)	4,230,984(4)	7.9%	6.5%
Series A Preferred	J.F. Shea Co., Inc.(5)	5,000	41.9%	*

*Less than one percent.

(1) Includes the ownership of ProQuest Investments, L.P., ProQuest Investments II, L.P., ProQuest Investments II Advisors Fu and ProQuest Companion Fund, L.P. ProQuest Associates LLC is the general partner of ProQuest Investments, L.P. and Pr Companion Fund, L.P. ProQuest Associates II LLC is the general partner of ProQuest Investments II, L.P. and ProQuest In II Advisors Fund, L.P. Address is 600 Alexander Park, Suite 204, Princeton, NJ 08540.

(2) Includes 1,232,395 shares which the ProQuest entities have the right to acquire under warrants.

(3) Includes the ownership of Lurie Investment Fund, LLC, ALFATECH, LLC, and WASK Investments, LLC. Mark Slezak is investment manager for all three entities. Address is c/o Lurie Investments, 2 N. Riverside Plaza, Suite 1500, Chicago, IL 6

(4) Includes 766,197 shares which Lurie Investment Fund, LLC, ALFATECH, LLC, and WASK Investments, LLC have the ri acquire under warrants.

(5) Address is 655 Brea Canyon Road, Walnut, CA 91789.

CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

John K.A. Prendergast, Ph.D. Dr. Prendergast is the president and sole stockholder of Summercloud Bay, Inc., a corporati which we had a consulting agreement to provide strategic and technology consulting services. During the fiscal year ended Jun we paid a total of $43,125 plus expenses to Summercloud Bay, Inc. for consulting services. The consulting agreement terminat 2004. In July 2003, we entered into an employment agreement with Dr. Prendergast under which he serves as chairman of the b During the fiscal year ended June 30, 2004, he received a salary of $45,000 per year. Effective July 1, 2004, his salary is $50,0 In addition, he may participate in all health benefit programs that we establish, to the extent that his position, tenure, salary, age and other qualifications make him eligible to participate.

Perry B. Molinoff, M.D. Upon his resignation effective November 3, 2003, in order to accept a position as Vice Provost fo at the University of Pennsylvania, we agreed to extend the expiration date of Dr. Molinoff s currently vested stock options unt after the end of his tenure as a director. The options would otherwise have expired 90 days after his resignation as an officer. In as consideration for his services as a director and for continuing as a consultant, we agreed to grant him a stock option to purch shares of common stock at $3.45 per share, the closing market price on November 3, 2003. We have

Table of Contents

entered into a consulting agreement with Dr. Molinoff under which we pay him $5,000 per month for consulting services. The agreement expires November 3, 2004.

Kevin S. Flannery. Effective October 14, 2003, the date of his resignation as a director, in consideration for his past servic director and for mutual waivers and releases, we entered into an agreement with Mr. Flannery which provides for:

- a stock option grant for 22,500 shares with an exercise price of $4.46 per share, exercisable until March 31, 2005

- immediate vesting of all his stock options; and

- removal of any restriction on transfer of his stock options and underlying shares (other than restrictions which m required by federal or state securities laws).

OTHER ITEMS OF BUSINESS

We are not aware of any matters, other than the items of business discussed in this proxy statement, that may come before meeting. If other items of business properly come before the meeting, the proxy holders will vote shares in accordance with the judgment.

STOCKHOLDER PROPOSALS FOR NEXT ANNUAL MEETING

Stockholders may submit proposals on matters appropriate for stockholder action at annual meetings in accordance with r adopted by the Securities and Exchange Commission. To be considered for inclusion in the proxy statement and form of proxy the next annual meeting of stockholders, such proposals must be received at our executive offices, 4C Cedar Brook Drive, Cran 08512, not later than July 1, 2005. Proposals should be directed to the attention of the Secretary.

For any proposal that is not submitted for inclusion in next year s proxy statement (as described in the preceding paragrap instead sought to be presented directly at next year s annual meeting, SEC rules permit proxies to be voted at the discretion of management if (a) we receive notice of the proposal before the close of business on September 13, 2005 and we advise stockho next year s proxy statement about the nature of the matter and how management intends to vote on such matter, or (b) we did r notice of the proposal prior to September 13, 2005.

ANNUAL REPORT ON FORM 10-K

Our annual report on Form 10-K for the fiscal year ended June 30, 2004, including the financial statements and schedules excluding exhibits, is being sent with this proxy statement without charge to each person whose proxy is being solicited.

Table of Contents

INFORMATION INCORPORATED BY REFERENCE

Notwithstanding anything to the contrary set forth in any of our previous or future filings under the Securities Act of 1933 Securities Exchange Act of 1934 that might incorporate this proxy statement in whole or in part, the audit committee report, the compensation committee report and the stock performance graph which follows the compensation committee report will not be be incorporated by reference into any such filing.

Your cooperation in giving this matter your immediate attention and returning your proxy card is greatly appreciated.

By order of the board of directors,

Stephen T. Wills, *Secretary*
July 29, 2004

Table of Contents

APPENDIX A

Audit Committee Charter

Purpose

The audit committee is appointed by the board of directors of Palatin Technologies, Inc. to assist the board in fulfilling its responsibilities by performing the following:

- Discuss with management and the independent auditors the integrity of the company s accounting policies, internal co corporate governance, financial statements, financial reporting practices and significant corporate risk exposures, and st management has taken to monitor, control and report such exposures.
- Monitor the qualifications, independence and performance of the company s independent auditors.
- Monitor the company s overall direction and compliance with legal and regulatory requirements and corporate governa including its code of business conduct and ethics.

· Maintain open and direct lines of communication with the board and company s management and independent auditors

Authority

The committee has the authority to retain special legal, accounting or other experts for advice, consultation or special inve
The committee may request any officer or employee of the company, the company s outside legal counsel, or the independent
attend a meeting of the committee or to meet with any member of, or consultants to, the committee. The committee may also, t
it deems necessary or appropriate, meet with the company s investment bankers or financial analysts who follow the company
committee will have full access to the books, records and facilities of the company.

Responsibilities

In carrying out its oversight responsibilities, the committee will:

Financial Statement and Disclosure Matters

1. Review and discuss the annual audited financial statements, including disclosures made in Management s Discussion
Analysis, with management and the independent auditors, and make its recommendation to the board as to the inclusion of the
audited financial statements in the company s annual report on Form 10-K.

2. Review and discuss with management and the independent auditors the company s quarterly financial results prior to
the Form 10-Q, including disclosures made in Management s Discussion and Analysis, the results of the independent auditors
the quarterly financial statements.

Table of Contents

3. Discuss with management and the independent auditor significant financial reporting issues and judgments made in co
with the preparation of the company s financial statements, including any significant changes in the company s selection or ap
accounting principles, any major issues as to the adequacy of the company s internal controls, the development, selection and
critical accounting estimates, and analyses of the effect of alternative assumptions, estimates or Generally Accepted Accountin
(GAAP) methods on the company s financial statements.

4. Discuss with management and the independent auditor the effect of regulatory and accounting initiatives as well as of
sheet structures related to the company s financial statements.

5. Discuss with management the company s earnings press releases, including the use of pro forma or adjusted no
information, as well as financial information and earnings guidance provided to analysts and rating agencies.

6. Discuss with the independent auditors the matters required to be discussed by American Institute of Certified Public A
(AICPA) Statement on Auditing Standards No. 61 (Communication with Audit Committees). In particular, discuss:

· The adoption of, or changes to, the company s significant auditing and accounting principles and practices as suggeste
independent auditor or management.

· The management letter provided by the independent auditor and the company s response to that letter.

· Any difficulties encountered in the course of the audit work, including any restrictions on the scope of activities or acce requested information, and any significant disagreements with management.

Independent Auditor Matters

7. Approve the appointment of the independent auditor, which firm is ultimately accountable to the audit committee of t the shareholders representatives. Determine and approve audit engagement fees and other compensation to be paid to indepen auditors.

8. Review the experience and qualifications of the senior members of the independent auditor s team.

9. Obtain and review a report from the independent auditor at least annually regarding (a) the auditor s internal quality- procedures, (b) any material issues raised by the most recent quality-control review, or peer review, of the auditor, or by any in investigation by governmental or professional authorities within the preceding five years respecting one or more independent a carried out by the firm, (c) any steps taken to deal with any such issues, and (d) all relationships between the independent audit company. Evaluate the qualifications, performance and independence of the independent auditor, including considering whethe auditor s quality controls are adequate and the provision of non-audit services is compatible with maintaining the auditor s in taking into account the opinions of management.

10. Ensure that neither the lead audit partner nor the reviewing audit partner perform audit services for the company for five (5) consecutive fiscal years.

Table of Contents

11. Ensure that the independent auditors submit on a periodic basis to the committee a formal written statement delineat relationships between the independent auditors and the company, and actively engage in a dialogue with the independent audit respect to any disclosed relationships or services that may impact the objectivity and independence of the independent auditors

12. Set policies for the company s hiring of employees or former employees of the independent auditor who were enga company s account during the preceding five-year period and ensure that no person employed by the independent auditor duri preceding one-year period is hired as a chief executive officer, controller, chief financial officer, chief accounting officer, or an equivalent position for the company.

13. Discuss with the engagement partner of the independent auditor issues on which he or she was consulted by the com team and matters of audit quality and consistency.

14. Determine whether to retain or terminate the independent auditor and inform the board of its decision.

15. Approve, and discuss the scope and approach of, all auditing services (including comfort letters and statutory audits) non-audit work to be undertaken by the independent auditor prior to the performance of such work and disclose any such appro company s periodic filings.

Internal Controls

16. Discuss with the independent auditors:

- The adequacy and effectiveness of the company s internal controls, including computerized information system security, and consider any recommendations for improvement of such controls.

- Any related significant findings and recommendations of the independent auditors together with management s

Legal and Tax Matters

17. Discuss with management (including the General Counsel) the status of significant legal and tax matters that could h material impact on the company s financial statements.

Compliance Matters

18. Obtain from the independent auditor assurance that Section 10A (a) through (f) of the Securities and Exchange Act o amended, has not been implicated.

19. Discuss with management and the independent auditor the company s compliance with applicable laws and regulati material reports, correspondence or inquiries from regulatory or government agencies and any employee complaints or publish which raise material issues regarding the company s financial statements or accounting policies.

20. Obtain reports from management and the independent auditor that the company and its subsidiary entities are in conf with applicable legal requirements, legal business policies, regulatory requirements and the company s Code of Business Conc Ethics. Review reports and disclosures of insider and affiliated party transactions. Advise the board

Table of Contents

with respect to the company s policies and procedures regarding compliance with applicable laws and regulations and with the Code of Business Conduct and Ethics.

21. Establish procedures for the receipt, retention and treatment of complaints received by the company regarding accou internal accounting controls, or auditing matters, and the confidential anonymous submissions by employees of concerns regar questionable accounting or auditing matters.

22. Review any report of evidence of a material violation made to the committee by any of the company s in-house c attorneys and take all necessary and appropriate action in response thereto.

Risk Management

24. Meet periodically with management to discuss the company s major risk exposures and the steps taken to insure app processes are in place to identify, manage, and control business risks associated with the company s business objectives.

25. Discuss with management significant risk management failures, if any, including management s response.

Membership

The committee will consist of three or more directors appointed by the board. The composition of the committee will com the independence and experience requirements of the American Stock Exchange, the Securities and Exchange Commission and applicable laws.

In fulfilling their responsibilities, it is recognized that members of the committee are not full-time employees of the compa not the duty or responsibility of the committee or its members to conduct field work or other types of auditing, legal, or acco reviews or procedures. The company s management is responsible for preparing the company s financial statements and the in auditors are responsible for auditing those financial statements.

Unless he or she believes to the contrary (in which case, he or she will advise the committee of such belief), each member committee will be entitled to assume and rely on (1) the integrity of those persons and organizations within and outside the com it receives information from and (2) the accuracy of the financial, legal, safety, health and environment, and other information p the committee by such persons or organizations.

Meetings

Except as otherwise required by the company s certificate of incorporation or bylaws, a majority of the members of the co will constitute a quorum for the transaction of business and the act of a majority of the members present at any meeting at whic quorum will be the act of the committee.

The chairperson of the committee will be responsible for scheduling all meetings of the committee and providing the comm a written agenda for each meeting. The chairperson will preside at the meetings of the committee. In the absence of the chairpe majority of

the members of the committee present at a meeting will appoint a member to preside at the meeting.

The committee will make regular reports to the board, and all actions of the committee will be reported to the board at the regular meeting of the board. The Secretary or an Assistant Secretary of the company, or a member of the committee, will keep minutes of the committee, which will be distributed to all board members.

The committee will meet at least quarterly with management and the independent auditors in separate executive sessions.

Compensation

The company will compensate committee members solely in the form of directors fees. The committee members may, ho receive higher fees than basic board service by other board members, in light of their heightened responsibilities to the compan

Miscellaneous

The committee will review and reassess the adequacy of this charter and the composition of the committee annually and re any proposed changes to the board for approval.

The committee will annually review its own performance.

The committee will prepare the report of the committee required by the rules of the Securities and Exchange Commission included in the company s annual proxy statement. The committee will also perform such other duties as the board may assign time to time.

This charter does not amend the provisions of the bylaws with respect to the audit committee or other committees of the b a separate resolution of the board expressly amending the bylaws.

END OF APPENDIX A

Table of Contents

APPENDIX B

NOMINATING AND CORPORATE GOVERNANCE COMMITTEE CHARTER

I. PURPOSE

The Nominating and Corporate Governance Committee (the Committee) is appointed by the Board of Directors (the Palatin Technologies, Inc. (the Company): (1) to assist the Board by identifying qualified candidates for director, and to rec Board the director nominees for the next annual meeting of shareholders; (2) to lead the Board in its annual review of the Boar performance; (3) to recommend to the Board director nominees for each Board Committee; (4) to oversee the annual process o of the performance of the Company s management; and (5) to develop and recommend to the Board corporate governance gui applicable to the Company.

To assist in carrying out its duties, the Committee shall have sole authority to retain and terminate any search firm to be us identify candidates to serve as a director, including sole authority to approve the search firm s fees and other retention terms. I the Committee shall have authority to obtain advice and assistance from internal or external legal, accounting or other advisors

II. COMPOSITION

The Committee shall be comprised of no fewer than three members. All members of the Committee shall meet the indepe requirements of the American Stock Exchange.

Committee members shall be elected by the Board and may be replaced by the Board. Unless a Chair is elected by the full members of the Committee may designate a Chair by majority vote of the full Committee membership.

III. MEETINGS

The Nominating and Governance Committee shall meet at least twice a year and at such other times as it deems necessary out its responsibilities. The Chair of the Committee and/or the Board may call such meetings.

IV. GOALS, RESPONSIBILITIES AND DUTIES

To fulfill its responsibilities and duties, the Nominating and Governance Committee shall, among other things:

1. Evaluate the current composition, organization and governance of the Board of Directors and its Committees, and recommendations to the Board for approval.

2. Determine desired Board member skills and attributes and conduct searches for prospective directors whose skills attributes reflect those desired and evaluate

Table of Contents

and propose nominees for election to the Board of Directors. At a minimum, nominees for service on the Board mu well-regarded and experienced participants in their field(s) of specialty, familiar at the time of their appointment w Company s business, willing to devote the time and attention necessary to deepen and refine their understanding o Company and the issues facing it, and must have an understanding of the demands and responsibilities of service o company board of directors. In making such recommendations, the Committee will also consider such qualities as independence from the Company, as the definition of independence may be revised from time to time. Each nor considered both on his or her individual merits and in relation to existing or other potential members of the Board, view to establishing a well-rounded, diverse, knowledgeable, and experienced Board.

3. Administer the annual Board of Directors performance evaluation process, including conducting surveys of directo observations, suggestions and preferences.

4. Evaluate and make recommendations to the Board of Directors concerning the appointment of directors to Board c the selection of Board committee chairs, and proposal of the slate of directors for election to the Board.

5. Consider all bona fide candidates recommended by shareholders for nomination for election to the Board if they ar accompanied by a comprehensive written resume of the recommended nominee s business experience and backgr signed consent from the recommended nominee stating that he or he is willing to be considered as a nominee and, nominated and elected, will serve as a director. The Committee will consider such candidates using the same scree criteria as are applied to all other potential nominees for election, provided that the shareholder nominations are su a timely and complete manner, under the requirements of the Securities and Exchange Commission and the Compa By-laws, as they may be amended from time to time.]

6. As necessary in the Committee s judgment from time to time, retain and compensate third party search firms to as identifying or evaluating potential nominees to the Board.

7. Evaluate and recommend termination of membership of individual directors in accordance with the Board of Direc governance principles, for cause or for other appropriate reasons.

8. Evaluate and consider matters relating to the qualifications of directors.

9. Annually review and reassess the adequacy of the corporate governance guidelines of the Company and recommen proposed changes to the Board for approval.

10. Oversee the annual process of performance evaluations of the Company s management.

11. Oversee the process of succession planning for the Chief Executive Officer and, as warranted, other senior officers Company.

12. Develop, adopt and oversee the implementation of a Code of Corporate Conduct and Ethics for all directors, execu officers and employees of the Company.

Table of Contents

13. Review and maintain oversight of matters relating to the independence of Board and committee members, keeping the independence standards of the Sarbanes-Oxley Act of 2002 and the rules of the American Stock Exchange.

14. Oversee and assess the effectiveness of the relationship between the Board and Company management.

15. Form and delegate authority to subcommittees when appropriate.

16. Make regular reports to the Board concerning its activities.

17. Annually review and reassess the adequacy of this Charter and recommend any proposed changes to the Board of I for approval.

18. Annually evaluate its own performance.

19. Fulfill such other duties and responsibilities as may be assigned to the Committee, from time to time, by the Board Chairman of the Board.

END OF APPENDIX B

Table of Contents

[proxy card front]

PALATIN TECHNOLOGIES, INC.
4C CEDAR BROOK DRIVE, CRANBURY, NEW JERSEY 0812

ANNUAL MEETING OF STOCKHOLDERS - DECEMBER 9, 2004
THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF DIRECTORS

The undersigned appoints Carl Spana, Ph.D. and Stephen T. Wills (each with full power to act without the other) as proxy with full power of substitution, to vote all shares of common stock and Series A Convertible Preferred Stock of Palatin Techno a Delaware corporation, held of record by the undersigned as of October 28, 2004 at Palatin s special meeting of stockholders Thursday, December 9, 2004 and at any postponement or adjournment of the meeting.

(To Be Signed on Reverse Side.)

[proxy card reverse]

Please mark your votes as in this example: |X|

THE BOARD OF DIRECTORS RECOMMENDS A VOTE "FOR" THE ELECTION OF DIRECTORS AND "FOR" PROPOSALS 2 AND 3.
PLEASE SIGN, DATE AND RETURN PROMPTLY IN THE ENCLOSED ENVELOPE. PLEASE MARK YOUR VO BLUE OR BLACK INK AS SHOWN HERE [X]

	FOR all nominees listed at right (except as indicated otherwise below)	WITHHOLD AUTHORITY to vote for all the nominees listed at right	
1. ELECTION OF DIRECTORS.	[ ]	[ ]	Nominees: 0 Carl Spana, Ph.D. 0 John K.A. Prenderg 0 Perry B. Molinoff, I 0 Robert K. deVeer, J 0 Zola P. Horovitz, Pl 0 Robert I. Taber, Ph. 0 Errol De Souza, Ph.
		[ ] FOR ALL EXCEPT (See instructions below)	

<u>INSTRUCTION:</u> To withhold authority to vote for any individual nominee(s), mark "FOR ALL EXCEPT" and fill in the circle each nominee you wish to withhold, as shown here: 0

2. To ratify the appointment of KPMG LLP as Palatin s independent auditors for the fiscal year ending June 30, 2005.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

3. To approve an amendment to the 1996 Stock Option Plan increasing the common stock available for issuance from 5,00 7,500,000 shares.

[ ] FOR [ ] AGAINST [ ] ABSTAIN

4. In their discretion, the proxy holders are authorized to vote upon such other matters as may properly come before the me any postponement or adjournment of the meeting.

The proxy holders will vote the shares of the undersigned stockholder as instructed above. If the stockholder does not specify a proxy holders will vote the

shares FOR proposals no. 1, 2 and 3 and on any other matter coming before the meeting in the discretion of the proxy holders.

The undersigned revokes any proxy previously given to vote or act with respect to such shares and ratifies and confirms all acti the proxy holders or their substitutes may lawfully do in accordance with the instructions on this proxy card.

Please complete, sign, date and return this proxy card in the enclosed envelope. No postage is required if mailed in the United S

SIGNATURE(S) ________________________________ DATE __________, 2004

SIGNATURE(S) ________________________________ DATE __________, 2004

NOTE: Please date this proxy card and sign your name exactly as it appears on the label. When there is more than one owner, e
sign. When shares are held by joint tenants, both should sign. When signing as attorney, executor, administrator, trustee or guar
please give your full title. If executed by a corporation, this proxy card should be signed by a duly authorized officer. If a partn
please sign in partnership name by an authorized person. Please note any changes in your address alongside the address as it ap
the proxy card.

APPENDIX C: 1996 STOCK OPTION PLAN

This Appendix C is filed pursuant to Schedule 14A, Item 10, Instruction 3. It is not part of the proxy statement.

PALATIN TECHNOLOGIES, INC.
1996 STOCK OPTION PLAN

1. PURPOSE.

The purposes of the 1996 Stock Option Plan (the "Plan") are to induce certain employees, consultants and directors to remain in the employ or service, or to continue to serve as directors, of Palatin Technologies, Inc. (the "Company") and its present and future subsidiary corporations (each a "Subsidiary"), as defined in Section 424(f) of the Internal Revenue Code of 1986, as amended (the "Code"), to attract new individuals to enter into such employment or service and to encourage such individuals to secure or increase on reasonable terms their stock ownership in the Company. The Board of Directors of the Company (the "Board") believes that the granting of stock options (the "Options") under the Plan will promote continuity of management and increased incentive and personal interest in the welfare of the Company by those who are or may become primarily responsible for shaping and carrying out the long range plans of the Company and securing its continued growth and financial success. Options granted hereunder are intended to be either (a) "incentive stock options" (which term, when used herein, shall have the meaning ascribed thereto by the provisions of Section 422(b) of the Code) or (b) options which are not incentive stock options ("non-incentive stock options") or (c) a combination thereof, as determined by the Committee (the "Committee") referred to in Section 4 hereof at the time of the grant thereof.

2. EFFECTIVE DATE OF THE PLAN.

The Plan became effective on August 28, 1996, by action of the Board, subject to ratification by stockholders of the Company.

3. STOCK SUBJECT TO PLAN.

5,000,000 of the authorized but unissued shares of the Common Stock, $0.01 par value, of the Company (the "Common Stock") are hereby reserved for issue upon the exercise of Options granted under the Plan; provided, however, that the number of shares so reserved may from time to time be reduced to the extent that a corresponding number of issued and outstanding shares of the Common Stock are purchased by the Company and set aside for issue upon the exercise of Options. If any Options expire or terminate for any reason without having been exercised in full, the unpurchased shares subject thereto shall again be available for the purposes of the Plan.