

UNILIFE CORP

FORM 10-Q/A (Amended Quarterly Report)

Filed 10/24/16 for the Period Ending 12/31/15

Address	250 CROSS FARM LANE YORK, PA 17406
Telephone	(717) 384-3400
CIK	0001476170
Symbol	UNIS
SIC Code	3841 - Surgical and Medical Instruments and Apparatus
Industry	Medical Equipment, Supplies & Distribution
Sector	Healthcare
Fiscal Year	06/30

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

FORM 10-Q/A
Amendment No. 2

(Mark One)

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

For the quarterly period ended December 31, 2015

OR

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

For the transition period from _____ to _____

Commission file number 001-34540

UNILIFE CORPORATION

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

27-1049354
(I.R.S. Employer
Identification No.)

250 Cross Farm Lane, York, Pennsylvania 17406
(Address of principal executive offices)

Telephone: (717) 384-3400
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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

As of October 17, 2016, 17,342,043 shares of the registrant's common stock were outstanding. Such amount reflects a 1-for-10 reverse split of the Company's common stock effected on May 13, 2016.

Explanatory Note

Unilife Corporation (the “Company,” “we,” “our” or “us”) is filing this Amendment No. 2 on Form 10-Q/A (the “December 2015 10-Q Amendment”) to amend its Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 2015 (the “Original Filing”), which was originally filed with the U.S. Securities and Exchange Commission (the “SEC”) on February 10, 2016, and amended by Amendment No. 1 filed with the SEC on August 9, 2016.

Subsequent to our filing of the Original Filing, the Company announced an investigation into violations of the Company’s policies and procedures and possible violations of law and regulation by the Company’s former Chief Executive Officer, Alan Shortall, whose employment with the Company ceased on March 11, 2016, and its former Chairman, Jim Bosnjak, who resigned from the Company’s Board of Directors (the “Board”) on August 24, 2015 (the “Investigation”).

The Investigation identified certain related party and other transactions which the Company had not previously publicly disclosed or recorded in its financial statements. As a result, the Company is filing the December 2015 10-Q Amendment and is concurrently filing (i) an amendment to the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2015 (the “2015 10-K Amendment”); and (ii) an amendment to the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2015 (the “September 2015 10-Q Amendment”). These amendments are being made to correct immaterial errors in the previously reported financial statements and to disclose certain material weaknesses in the Company’s internal control over financial reporting and disclosure controls and procedures. See “Explanatory Note – Summary of Amendments” below for a summary of the specific amendments reflected in the 2015 10-K Amendment, the September 2015 10-Q Amendment and the December 2015 10-Q Amendment.

Concurrently with the filing of the 2015 10-K Amendment, the September 2015 10-Q Amendment and the December 2015 10-Q Amendment, the Company is also filing (a) the Company’s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2016 (the “March 2016 Form 10-Q”), the filing of which was delayed as a result of the Investigation; and (b) the Company’s Annual Report on Form 10-K for the fiscal year ended June 30, 2016, the filing of which was delayed as a result of the Investigation (the “2016 10-K”).

Common Stock Reverse Stock Split

On May 13, 2016, pursuant to prior stockholder authorization, the Company effected a reverse split of the Company’s common stock, pursuant to which every ten (10) shares of common stock outstanding before the reverse split were converted into one (1) share of common stock after the reverse split. All share and per share amounts, and exercise and conversion prices for all periods presented herein have been adjusted to reflect the reverse split as if it had occurred at the beginning of the first period presented.

Except as set forth herein, the information contained in the Original Filing has not been updated to reflect any subsequent events and should be read in conjunction with the Company’s other filings made with the SEC, including the September 2015 10-Q Amendment, the December 2015 10-Q Amendment, the March 2016 Form 10-Q and the 2016 10-K. Investors should pay particular attention to the risk factors set forth in Part I, Item 1A. Risk Factors of the 2015 10-K Amendment when reading the December 2015 10-Q Amendment and the Company’s other filings with the SEC.

Background and Results of the Investigation

The Company announced the Investigation on May 8, 2016. The Board established a Special Committee to oversee the Investigation. Independent counsel conducted the Investigation with the assistance of an advisory firm with forensic accounting expertise. The Investigation was completed on October 7, 2016.

Set forth below is a summary of the final results of the Investigation, all of which have been previously disclosed.

Bosnjak Mortgage Correspondence

In 2015, Mr. Shortall and Mr. Bosnjak, without authorization from or knowledge of the Company or its Board, caused to be transmitted to a mortgage broker for Mr. Shortall correspondence from Mr. Bosnjak that contained inaccurate statements about the Company’s financial support for Mr. Shortall’s purchase of and relocation to a new home. The investigation into the matters described in this paragraph did not identify any financial loss to the Company and the Company has corrected the inaccurate statements to the mortgage broker.

Shortall Fund Transfers

Mr. Shortall deposited \$2,264,475 (the “Shortall Funds”) of his own funds into the Company’s bank account on June 29, 2015 and then caused the Company to disburse from the Shortall Funds \$1,351,553 to third parties to complete Mr. Shortall’s purchase of his new home on July 23, 2015, and the remainder back to himself on July 28, 2015.

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In addition to the Shortall Funds, during fiscal years 2013 through 2016, under Mr. Shortall's direction, the Company accepted checks and wires from Mr. Shortall in the aggregate amount of approximately \$340,000 and disbursed the same amount of funds to Mr. Shortall or his designees but did not deposit such checks or receive such wires from Mr. Shortall until five days to thirty-six days after the Company's disbursement of the funds. The Company believes such transactions constituted loans from the Company to Mr. Shortall. In addition, Mr. Shortall wired funds and provided personal checks to the Company in the aggregate amount of approximately \$253,000, not including the Shortall Funds, which wires and checks the Company received and deposited, as applicable, prior to or within a day of the Company disbursing the same amounts to Mr. Shortall. The transfers described under the above heading "Shortall Fund Transfers" are referred to herein as the "Shortall Fund Transfers").

The investigation into the matters described in this section entitled "Shortall Fund Transfers" did not identify any financial loss to the Company.

Bosnjak Payments to Mr. Shortall

Mr. Shortall and Mr. Bosnjak failed to disclose to the Company \$170,000 in personal payments during 2011 from Mr. Bosnjak to Mr. Shortall which payments did not involve Company funds, and also failed to disclose that, during the period from 2010 to Mr. Bosnjak's resignation, Mr. Shortall, for reasons that the Company has been unable to determine, expected to be paid or loaned substantial amounts of money by Mr. Bosnjak. The investigation into the matters described in this paragraph did not involve Company funds and did not identify any financial loss to the Company.

Bosnjak Loan Payments and Unreimbursed Personal Expenses

Between July 2014 and July 2015, Mr. Shortall caused approximately \$62,000 in Company funds to be transmitted to a third party, which fund transmittals the Company believes were made for the purpose of satisfying certain of Mr. Bosnjak's commitments to pay interest to such third party on a loan secured by some of Mr. Bosnjak's shares of Company stock (the "Bosnjak Loan Payments"). The Company believes that the Bosnjak Loan Payments constituted loans from the Company to Mr. Bosnjak, and the Company is evaluating potential actions to recover these funds.

From fiscal 2013 through fiscal 2016, Mr. Shortall caused the Company to pay for personal expenses, approximately \$88,000 of which was not repaid to the Company (the "Unreimbursed Personal Expenses"). The Company believes the Unreimbursed Personal Expenses constituted loans from the Company to Mr. Shortall, and the Company has demanded repayment of the Unreimbursed Personal Expenses.

Other than as described in this section entitled "Bosnjak Loan Payments and Unreimbursed Personal Expenses," the Investigation did not identify any financial loss to the Company. The Company is evaluating claims it may have arising from matters identified by the Investigation as well as any additional actions it may determine to pursue with respect to these claims. With respect to the Bosnjak Loan Payments and Unreimbursed Personal Expenses, because collection of such amounts is uncertain, the Company has concluded that such amounts were recorded appropriately in the Company's financial statements in the applicable periods as Selling, General and Administrative Expense.

Advanced Withholding Payments

In March 2016, July 2015 and December 2014, in connection with the vesting of restricted shares of the Company's common stock, the Company paid associated withholding taxes on behalf of three executive officers, its Vice President of Quality and Regulatory Affairs and Chief Compliance Officer, its Senior Vice President and Chief Commercial Officer, and its former President and Chief Operating Officer, in an aggregate amount of approximately \$240,000 prior to being reimbursed by such executive officers (the "Advanced Withholding Payments"). With the exception of one \$400 underpayment, which the Company collected in July, 2016, such executive officers repaid the Company in full within a range of 18 to 120 days from the date of the withholding payment. The Company believes such advances constituted loans.

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Founder Transactions

The Company investigated (the “Founders’ Shares Investigation”) certain issues related to the November 2009 issuance (the “UMSL Share Issuance”) of shares by Unilife Medical Solutions Limited (“UMSL”) to one of the Company’s founding shareholders, Roger Williamson, and whether Mr. Shortall may have been a beneficial owner of the UMSL shares or the CHESSE Depository Interests (“CDIs”) issued by the Company (the “Founder CDIs”) in exchange for the UMSL shares in connection with UMSL’s redomiciliation from Australia to Delaware in January 2010.

In connection with the Founders’ Shares Investigation, the Company determined that the UMSL Share Issuance was a valid corporate action. While the Company believes as a result of the Investigation that Mr. Shortall had business relationships unrelated to the Company with Mr. Williamson, the Company did not find sufficient evidence to conclude that Mr. Shortall was the beneficial owner of the Founder CDIs.

The Company initially disclosed the UMSL Share Issuance in its Registration Statement on Form 10, which became effective on February 11, 2010 (the “Form 10”). In connection with the Founders’ Shares Investigation, the Company discovered that, as of the effective date of the Form 10, Mr. Williamson was the beneficial owner of 21,782,241 CDIs, representing approximately 6.75% of the Company’s common stock, but lacks access to sufficient information to determine whether Mr. Williamson was the beneficial owner of additional Company securities. The Form 10 did not disclose Mr. Williamson’s beneficial ownership of Company securities.

The Founders’ Shares Investigation did not identify any financial loss to the Company.

The Company has reported information regarding the Investigation to the SEC.

Controls and Procedures Considerations

As a result of the findings of the Investigation, management, under the supervision of the Company’s new CEO and the Company’s CFO, and oversight of the Board, conducted a reevaluation of the effectiveness of the Company’s internal control over financial reporting as of December 31, 2015 based on the COSO 1992 Framework. Based on this reevaluation, management has determined that under the oversight of the Board and the leadership of Mr. Shortall, the Company did not have an effective control environment, risk assessment process, information and communication process and monitoring activities. Additionally, because of the Company’s findings from the Investigation, the Company is unable to rely on certain personnel, processes and internal controls, and as such, that various material weaknesses existed at December 31, 2015. In light of such material weaknesses, management has concluded that the Company’s internal control over financial reporting was ineffective as of December 31, 2015. In addition, the Company has concluded that, as of such dates, there were material weaknesses in the Company’s disclosure controls and procedures (together with the material internal control weaknesses, the “Material Weaknesses”) as a result of the material internal control weaknesses.

The Company is committed to remediating the Material Weaknesses as promptly as possible and the implementation of the Company’s remediation plans has commenced. See Part I, Item 4. Controls and Procedures below for additional information regarding the Material Weaknesses and such remediation process.

Summary of Amendments

As noted above, (i) the Company’s receipt and disbursement of the Shortall Funds were not reflected in the Company’s relevant financial statements originally filed with the SEC; (ii) none of the Company’s receipt and disbursement of the Shortall Funds, the Shortall Fund Transfers, the Bosnjak Loan Payments, the Unreimbursed Personal Expenses and the Advanced Withholding Payments (collectively, the “Related Party Transactions”) was reflected in the Company’s relevant related party disclosures originally filed with the SEC; and (iii) as a result of the Investigation, management has determined that the Material Weaknesses existed as of June 30, 2015, as of the end of each of the first three quarters of fiscal 2016, and as of June 30, 2016.

As a result of the foregoing, the Company is filing the 2015 10-K Amendment, the September 2015 10-Q Amendment and the December 2015 10-Q Amendment. These amendments are being made to correct immaterial errors in the previously reported financial statements and to disclose the Material Weaknesses. In addition, the Material Weaknesses that existed as of March 31, 2016 and June 30, 2016 and the relevant Related Party Transactions are disclosed where appropriate in the March 2016 Form 10-Q and the 2016 10-K. The amended documents and the March 2016 Form 10-Q and the 2016 10-K have all been filed concurrently.

The specific amendments reflected in the 2015 10-K Amendment, the September 2015 10-Q Amendment and the December 2015 10-Q Amendment are summarized below.

Amendments Reflected in the 2015 10-K Amendment

The 2015 10-K Amendment is being filed by the Company to amend the following sections of the Company’s Annual Report on Form 10-K for the year ended June 30, 2015:

- The Section entitled “Cautionary Note Regarding Forward-Looking Information”: to add disclosure regarding certain risks;

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- Part I, Item 1A. Risk Factors: to add disclosure regarding certain risks;
- Part II, Item 6. Selected Financial Data: to record the related party restricted cash balance equal to the Shortall Funds (\$2,264,475);
- Part II, Item 8. Financial Statements and Supplementary Data: to correct the immaterial errors discovered as a result of the Investigation to:
 - record the related party restricted cash balance equal to the Shortall Funds (\$2,264,475) and the same amount as due to a related party on the consolidated balance sheet and to record the receipt of the Shortall funds and the corresponding amount due to a related party within the operating section of the Company's consolidated statement of cash flows;
 - identify each of the Related Party Transactions as related party transactions and to add disclosure regarding the same; and
 - amend the reports of the Company's independent registered public accounting firm, KPMG LLP, regarding the Company's internal control over financial reporting and financial statements;
- Part II, Item 9A. Controls and Procedures: to amend management's evaluation of disclosure controls and procedures and its assessment of internal control over financial reporting to state that such controls were not effective as of June 30, 2015, disclose the Material Weaknesses at June 30, 2015, and discuss the Company's remediation plan;
- Part III, Item 13. Certain Relationships and Related Transactions, and Director Independence: to identify each of the Related Party Transactions as related party transactions and to add disclosure regarding the same; and
- Part IV, Item 15. Exhibits, Financial Statement Schedules: to file a new consent of KPMG LLP and, as required by Rule 12b-15 under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), file new certifications of our principal executive officer and principal financial officer as exhibits to the 2015 10-K Amendment.

Amendments Reflected in the September 2015 10-Q Amendment

The following sections of the Company's Quarterly Report on Form 10-Q for period ended September 30, 2015 are being amended pursuant to the September 2015 10-Q Amendment:

- Part I, Item 1 – Financial Statements to correct the immaterial errors discovered as a result of the Investigation:
 - to amend the presentation of information for the fiscal year ended June 30, 2015 in the consolidated balance sheet to record the related party restricted cash balance equal to the Shortall Funds (\$2,264,475) and the same amount as due to a related party;
 - to amend the consolidated statement of cash flows to reflect the Company's disbursement of the Shortall Funds and the corresponding reduction of restricted cash all within the operating section of the consolidated statement of cash flows for the three months ended September 30, 2015; and
 - to identify certain of the Related Party Transactions as related party transactions and to add disclosure regarding the same.
- Part I, Item 4 – Controls and Procedures: to amend management's evaluation of disclosure controls and procedures and its assessment of internal control over financial reporting to state that such controls were not effective as of September 30, 2015, disclose the Material Weaknesses at September 30, 2015, and discuss the Company's remediation plan; and
- Part II, Item 6 – Exhibits and Financial Statement Schedule: to, as required by Rule 12b-15 under the Exchange Act, file new certifications of our principal executive officer and principal financial officer as exhibits to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015.

Amendments Reflected in the December 2015 10-Q Amendment

The following sections of the Company's Quarterly Report on Form 10-Q for period ended December 31, 2015 are being amended pursuant to the December 2015 10-Q Amendment:

- Part I, Item 1 – Financial Statements to correct the immaterial errors discovered as a result of the Investigation:
 - to amend the presentation of information for the fiscal year ended June 30, 2015 in the consolidated balance sheet to record the related party restricted cash balance equal to the Shortall Funds (\$2,264,475) and the same amount as due to a related party;
 - to amend the consolidated statement of cash flows to reflect the Company's disbursement of the Shortall Funds and the corresponding reduction of restricted cash all within the operating section of the consolidated statement of cash flows for the six months ended December 31, 2015;
 - to identify certain of the Related Party Transactions as related party transactions and to add disclosure regarding the same; and
 - to amend the interim review "Report of Independent Registered Public Accounting Firm" therein to include a revised report of KPMG LLP.

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- Part I, Item 4 – Controls and Procedures: to amend management’s evaluation of disclosure controls and procedures and its assessment of internal control over financial reporting to state that such controls were not effective as of December 31, 2015, disclose the Material Weaknesses at December 31, 2015, and discuss the Company’s remediation plan; and
- Part II, Item 6 – Exhibits and Financial Statement Schedule: to, as required by Rule 12b-15 under the Exchange Act, file new certifications of our principal executive officer and principal financial officer as exhibits to the Company’s Quarterly Report on Form 10-Q for the period ended December 31, 2015.

Management and Board Changes

Since the date of the filing of the Original Filing with the SEC, the following changes in the Company’s management and Board composition have occurred:

The Company no longer has any business relationship with Mr. Shortall or Mr. Bosnjak. As of March 11, 2016, (i) Mr. Shortall’s employment as Chief Executive Officer of the Company ceased and Mr. Shortall resigned from his position as Chairman of the Board, (ii) the Board appointed Mary Kate Wold to serve as its new Chair, and (iii) the employment of Ramin Mojdeh, Ph.D. as the Company’s President and Chief Operating Officer ceased.

Effective March 14, 2016, the Board appointed John Ryan as the Company’s Interim President and Chief Executive Officer of the Company. The Board subsequently appointed Mr. Ryan as the Company’s President and Chief Executive Officer and also appointed Mr. Ryan to serve as a member of the Board, in each case, effective July 28, 2016.

On July 25, 2016, the Company’s employment of Mark Iampietro as the Company’s Vice President of Quality and Regulatory Affairs and Chief Compliance Officer was ended by the Company without cause.

On July 28, 2016:

- the Board appointed Michael E. Kamarck to serve as a member of the Board;
- the Board appointed Ian Hanson as the Company’s Chief Operating Officer in addition to his roles as the Company’s Senior Vice President;
- due to results of the Investigation, Dennis P. Pyers was removed from his position as the Company’s Senior Vice President, Controller, Treasurer and Chief Accounting Officer and was appointed as the Company’s Senior Advisor, Special Projects;
- the Board appointed David Hastings as the Company’s Chief Accounting Officer and Treasurer in addition to his roles as the Company’s Senior Vice President and Chief Financial Officer;
- the Board appointed Stephanie Walters as Senior Vice President, General Counsel and Secretary; and
- the Board appointed Molly Weaver, Ph.D., as Vice President of Quality and Regulatory Affairs and Chief Compliance Officer.

Investigation and Litigation Related to this Matter

The Company has reported the final results of the Investigation to the SEC and to The NASDAQ Stock Market LLC (“NASDAQ”), and the Company continues to cooperate fully with the SEC with respect to the SEC’s ongoing investigation. The SEC or other external parties could request further documents and information from the Company. The Company and certain of its current and former directors and officers have also been named as defendants in a number of lawsuits filed in connection with the matters set forth in this Explanatory Note. For information concerning the SEC’s ongoing investigation and such lawsuits, see the March 2016 Form 10-Q and the 2016 10-K, which the Company intends to file on the same day as this December 2015 10-Q Amendment.

Matters Relating to NASDAQ and Our Common Stock and ASX and our CDIs

The filing of the March 2016 Form 10-Q was delayed as a result of the Investigation. As a result of such delay, on May 17, 2016, the Company received a notice from the Listing Qualifications department of NASDAQ stating that, because the Company had not yet filed the March 2016 Form 10-Q, the Company was no longer in compliance with NASDAQ Listing Rule 5250(c)(1), which requires listed companies to timely file all required periodic financial reports with the SEC. The notice received from NASDAQ stated that the Company had 60 calendar days from the date of the notice to submit a plan to regain compliance with NASDAQ’s continued listing requirements.

On July 18, 2016, the Company timely submitted a plan to NASDAQ as to how it planned to regain compliance with NASDAQ’s continued listing requirements. The staff at NASDAQ subsequently granted the Company an exception to file the March 2016 Form 10-Q and any other delinquent SEC filings on or before November 7, 2016 in order to enable the Company to regain compliance with the listing rules.

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On September 19, 2016, the Company received a notice from the Listing Qualifications department of NASDAQ stating that, because the Company had not yet filed the 2016 10-K, the Company is not in compliance with NASDAQ Listing Rule 5250(c)(1). The Company timely submitted to NASDAQ an updated compliance plan on October 4, 2016.

As noted above, the Company is concurrently filing with the SEC the 2016 10-K and the March 2016 10-Q with the 2015 10-K Amendment, the September 2015 10-Q Amendment and the December 2015 10-Q Amendment. Consequently, the Company currently believes that it has adequately remedied its non-compliance with NASDAQ Listing Rule 5250(c)(1) within NASDAQ's terms of exception. However, there can be no assurance that NASDAQ will concur that we have remedied such non-compliance.

On October 17, 2016, the Company received a notice from the Listing Qualifications department of NASDAQ stating that, because the Company did not maintain a minimum Market Value of Listed Securities ("MVLS") of \$50,000,000 for the last 30 consecutive business days, the Company was no longer in compliance with NASDAQ Listing Rule 5450(b)(2)(A).

The Company has been provided a period of 180 calendar days, or until April 17, 2017, to regain compliance with the minimum MVLS listing requirement. If at any time on or before April 17, 2017, the MVLS of the Company's common stock closes at \$50,000,000 or more for a minimum of 10 consecutive business days, NASDAQ will provide the Company with written confirmation that the Company has achieved compliance with the minimum MVLS listing requirement and the matter will be closed.

In the event that the Company does not regain compliance with the minimum MVLS listing requirement on or before April 17, 2017, NASDAQ will provide the Company with written notification that its securities are subject to delisting. At that time, the Company would be permitted to appeal the delisting determination to a NASDAQ Hearings Panel or apply to transfer its common stock to The NASDAQ Capital Market (provided that it satisfied the requirement for continued listing on that market). (See Part I, Item 1A Risk Factors of this 2016 10-K – "We are not in compliance with the requirements of NASDAQ for continued listing, and if NASDAQ does not concur that we have adequately remedied our non-compliance with NASDAQ Listing Rule 5250(c)(1) or we do not adequately remedy our non-compliance with NASDAQ Listing Rule 5450(b)(2)(A), our common stock may be delisted from trading on NASDAQ, which could have a material adverse effect on us and our stockholders" below).

The Company was also required to file audited financial statements with the Australian Securities Exchange (the "ASX") no later than September 30, 2016 (the "ASX Deadline"). The Company was not able to file such audited financial statements by the ASX Deadline. As a result, pursuant to ASX rules, trading in the Company's CHESS Depository Interests ("CDIs") on the ASX was to be suspended prior to the opening of trading on the ASX on October 3, 2016, however, the ASX accepted the Company's request for an immediate voluntary suspension of trading and as such, ASX halted trading of the Company's CDIs on the ASX prior to the opening of trading on September 30, 2016 in Australia. Such trading in Australia will not resume until after the Company files the audited financial statements included in the 2016 10-K with the ASX, which the Company intends to do concurrently with filing the 2016 10-K with the SEC.

As noted above, the Company is concurrently filing with the SEC the March 2016 Form 10-Q and the 2016 10-K with the Form 10-K Amendment, the September 2015 10-Q Amendment and the December 2015 10-Q Amendment. Consequently, the Company currently believes that it has adequately remedied its non-compliance with NASDAQ's listing rules within NASDAQ's terms of exception. However, there can be no assurance that NASDAQ will concur that we have remedied our current non-compliance (see Part I, Item 1A Risk Factors of the Form 10-K Amendment – "We have not been in compliance with the requirements of NASDAQ for continued listing, and if NASDAQ does not concur that we have adequately remedied our non-compliance, our common stock may be delisted from trading on NASDAQ, which could have a material adverse effect on us and our stockholders" below).

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

UNILIFE CORPORATION AND SUBSIDIARIES
Consolidated Balance Sheets
(unaudited)

	<u>December 31, 2015</u>	<u>June 30, 2015</u>
	(in thousands, except share data)	
Assets		
Current Assets:		
Cash and cash equivalents	\$ 17,971	\$ 12,303
Restricted cash	2,400	2,400
Restricted cash – related party	—	2,264
Accounts receivable	2,957	1,530
Inventories	122	151
Prepaid expenses and other current assets	2,481	656
Total current assets	25,931	19,304
Property, plant and equipment, net	81,761	66,148
Goodwill	9,249	9,685
Other assets	1,296	1,256
Total assets	<u>\$ 118,237</u>	<u>\$ 96,393</u>
Liabilities, Redeemable Convertible Preferred Stock, and Stockholders' Deficit		
Current Liabilities:		
Accounts payable	\$ 10,663	\$ 4,042
Due to related party	—	2,264
Accrued expenses	18,142	5,074
Current portion of long-term debt	1,949	775
Preferred stock conversion liability	4,802	—
Deferred revenue	3,715	4,942
Total current liabilities	39,271	17,097
Long-term debt, less current portion	93,189	79,660
Deferred revenue	32,550	17,550
Total liabilities	<u>165,010</u>	<u>114,307</u>
Contingencies (Note 11)		
Redeemable convertible preferred stock, Series A — subject to redemption, \$0.01 par value, 790 shares authorized, 790 and 0 shares issued, and 490 and 0 shares outstanding as of December 31, 2015 and June 30, 2015, respectively	2,450	—
Stockholders' Deficit:		
Preferred stock, \$0.01 par value, 50,000,000 shares authorized as of December 31, 2015; none issued and outstanding as of December 31, 2015 and June 30, 2015	—	—
Common stock, \$0.01 par value, 350,000,000 shares authorized as of December 31, 2015; 15,543,843 and 13,197,616 shares issued, and 15,540,976 and 13,194,748 shares outstanding as of December 31, 2015 and June 30, 2015, respectively	155	132
Additional paid-in-capital	386,398	366,005
Accumulated deficit	(435,867)	(384,580)
Accumulated other comprehensive income	231	669
Treasury stock, at cost, 2,867 shares as of December 31, 2015 and June 30, 2015, respectively	(140)	(140)
Total stockholders' deficit	<u>(49,223)</u>	<u>(17,914)</u>
Total liabilities, redeemable convertible preferred stock, and stockholders' deficit	<u>\$ 118,237</u>	<u>\$ 96,393</u>

See accompanying notes to the consolidated financial statements.

UNILIFE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Operations and Comprehensive Loss
(unaudited)

	Three Months Ended		Six Months Ended	
	December 31,		December 31,	
	2015	2014	2015	2014
	(in thousands, except per share data)			
Revenue	\$ 4,499	\$ 5,403	\$ 7,686	\$ 6,783
Research and development	10,533	11,309	26,537	22,285
Selling, general and administrative	8,774	9,508	18,002	17,708
Depreciation and amortization	1,422	1,253	2,965	2,353
Total operating expenses	<u>20,729</u>	<u>22,070</u>	<u>47,504</u>	<u>42,346</u>
Operating loss	(16,230)	(16,667)	(39,818)	(35,563)
Interest expense	1,872	1,805	3,556	2,914
Change in fair value of financial instruments	7,325	940	7,927	3,170
Other (income) expense, net	(4)	(25)	(14)	2
Net loss	<u>(25,423)</u>	<u>(19,387)</u>	<u>(51,287)</u>	<u>(41,649)</u>
Other comprehensive (income) loss, net:				
Foreign currency translation	(378)	707	438	1,542
Comprehensive loss	<u>\$ (25,045)</u>	<u>\$ (20,094)</u>	<u>\$ (51,725)</u>	<u>\$ (43,191)</u>
Net loss per share:				
Basic and diluted net loss per share	<u>\$ (1.98)</u>	<u>\$ (1.80)</u>	<u>\$ (4.05)</u>	<u>\$ (3.92)</u>

See accompanying notes to the consolidated financial statements.

UNILIFE CORPORATION AND SUBSIDIARIES
Consolidated Statement of Stockholders' Deficit
For the Six Months Ended December 31, 2015
(unaudited)

	<u>Common Stock</u>		<u>Additional Paid-In Capital</u>	<u>Accumulated Deficit</u>	<u>Accumulated Other Comprehensive Income</u>	<u>Treasury Stock</u>	<u>Total</u>
	<u>Shares</u>	<u>Amount</u>					
	(In thousands, except share data)						
Balance as of July 1, 2015	13,197,616	\$ 132	\$ 366,005	\$ (384,580)	\$ 669	\$ (140)	\$ (17,914)
Net loss	—	—	—	(51,287)	—	—	(51,287)
Foreign currency translation	—	—	—	—	(438)	—	(438)
Issuance of warrants	—	—	486	—	—	—	486
Conversion of redeemable convertible preferred stock	1,544,283	15	4,555	—	—	—	4,570
Remeasurement of redeemable convertible preferred stock	—	—	(1,047)	—	—	—	(1,047)
Share-based compensation expense	97,468	1	7,019	—	—	—	7,020
Issuance of common stock from public offerings, net of issuance costs	704,476	7	9,380	—	—	—	9,387
Balance as of December 31, 2015	<u>15,543,843</u>	<u>\$ 155</u>	<u>\$ 386,398</u>	<u>\$ (435,867)</u>	<u>\$ 231</u>	<u>\$ (140)</u>	<u>\$ (49,223)</u>

See accompanying notes to the consolidated financial statements.

UNILIFE CORPORATION AND SUBSIDIARIES
Consolidated Statements of Cash Flows
(unaudited)

	Six Months Ended	
	December 31,	
	2015	2014
	(in thousands)	
Cash flows from operating activities:		
Net loss	\$(51,287)	\$(41,649)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,965	2,353
Share-based compensation expense	7,020	4,728
Recognition of deferred revenue	(2,358)	(125)
Non-cash interest expense	1,194	782
Change in fair value of financial instruments	7,927	3,170
Changes in assets and liabilities:		
Restricted cash – related party	2,264	—
Accounts receivable	(797)	(2,260)
Inventories	29	(23)
Prepaid expenses and other current assets	(1,825)	139
Other assets	6	71
Accounts payable	6,651	2,243
Due to related party	(2,264)	—
Accrued expenses	1,255	1,634
Deferred revenue	15,501	3,908
Net cash used in operating activities	(13,719)	(25,029)
Cash flows from investing activities:		
Purchases of property, plant and equipment	(6,750)	(6,920)
Net cash used in investing activities	(6,750)	(6,920)
Cash flows from financing activities:		
Principal payments on long-term debt and capital lease obligations	(289)	(315)
Payment of royalty liability	(309)	—
Proceeds from issuance of long-term debt	10,600	20,000
Proceeds from the issuance of common stock, net of issuance costs	9,387	12,401
Proceeds from the issuance of preferred stock, net of issuance costs	7,172	—
Payment of financing costs	(143)	(52)
Dividend payment on redeemable convertible preferred stock	(280)	—
Net cash provided by financing activities	26,138	32,034
Effect of exchange rate changes on cash	(1)	(5)
Net increase in cash and cash equivalents	5,668	80
Cash and cash equivalents at beginning of period	12,303	8,368
Cash and cash equivalents at end of period	<u>\$ 17,971</u>	<u>\$ 8,448</u>
Supplemental disclosure of cash flow information		
Cash paid for interest	<u>\$ 2,059</u>	<u>\$ 2,948</u>
Supplemental disclosure of non-cash activities		
Purchases of property, plant and equipment in accounts payable and accrued expenses	<u>\$ 12,280</u>	<u>\$ 281</u>

See accompanying notes to the consolidated financial statements.

Unilife Corporation and Subsidiaries
Notes to Unaudited Consolidated Financial Statements

1. Description of Business and Unaudited Financial Statements

Unilife Corporation (together with its subsidiaries, the “Company”) is a U.S. based designer, manufacturer and supplier of innovative injectable drug delivery systems that can enhance and differentiate the injectable therapies of its pharmaceutical and biotechnology customers. The Company has a broad portfolio of proprietary product platforms, including pre-filled syringes, wearable injectors, insulin delivery systems, disposable and reusable auto-injectors, drug reconstitution delivery systems, ocular delivery systems and other systems for the targeted delivery of injectable therapies. Products within each platform are differentiated from competitors’ products with a series of innovative features designed to optimize the safe, simple and convenient administration of an injectable therapy. The majority of the Company’s products are designed for sale directly to pharmaceutical and biotechnology companies who are expected to supply them as drug-device combination products, pre-filled and ready for administration by end-users such as health-care providers or patients. Other of our products, like our reusable auto injectors and certain systems for targeted drug delivery, are designed to be sold to either pharmaceutical or biotechnology companies for use as combination products or to be sold directly by us to a healthcare provider or end user without having the device prefilled by a pharmaceutical company. Products within each of the Company’s platforms can be customized to address specific customer, therapy, patient and/or commercial requirements.

The Company’s growing base of customers includes Sanofi, MedImmune, AbbVie, Novartis and Hikma. In addition to the filling, assembly and/or packaging of our product with an injectable therapy, the Company’s customers are also responsible for the regulatory approval, sale and marketing of their final drug-device combination product. With certain of our devices that we could sell directly to healthcare providers or end users without having them pre-filled with a drug by a pharmaceutical company, we would be responsible for the regulatory approval, sale and marketing of the final device. In addition to product sales, the Company can generate revenue and cash receipts from customization programs, upfront fees and exclusivity or royalty payments.

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America (“GAAP”). The accompanying unaudited consolidated financial statements contain all normal and recurring adjustments that, in the opinion of management, are necessary for a fair presentation for the periods presented as required by Rule 10-01 of Regulation S-X. Interim results may not be indicative of results for a full year. The accompanying unaudited consolidated financial statements should be read in conjunction with the Company’s audited consolidated financial statements and the notes thereto for the fiscal year ended June 30, 2015, or fiscal 2015, contained in its Annual Report on Form 10-K.

2. Revisions to Financial Statements

a. *Investigation*

The Company announced an investigation into violations of the Company’s policies and procedures and possible violations of law and regulation by the Company’s former Chief Executive Officer, Alan Shortall, whose employment with the Company ceased on March 11, 2016, and its former Chairman, Jim Bosnjak, who resigned from the Company’s Board of Directors (the “Board”) on August 24, 2015 (the “Investigation”). The Board established a Special Committee of independent members of the Board of Directors to oversee the Investigation. Independent counsel conducted the Investigation with the assistance of an advisory firm with forensic accounting expertise.

The Investigation, which was completed on October 7, 2016, identified various related party transactions with officers and senior executives during the three months ended September 30, 2015 and 2014 which were not properly recorded and/or disclosed in previously issued consolidated financial statements. In addition, the Investigation concluded that certain transactions represented loans to officers that may constitute violations of Section 402 of the Sarbanes-Oxley Act of 2002 (“SOX”).

The transactions that occurred during the three and six months ended December 31, 2015 and 2014 that were identified as a result of the Investigation were evaluated as immaterial misstatements to the financial statements and omissions of disclosures and are corrected in these comparative financial statements:

- The operating section of the consolidated statement of cash flows was adjusted to record the disbursement of \$2,264,475 (the “Shortall Funds”) and the corresponding amount due to related party; and
- Related Party Transactions footnote (see note 14) was revised to disclose the nature of the related party transactions, a description of the transactions and dollar amounts involved and any amounts due from or to as of the date of each balance sheet presented and the terms and manner of settlement.

To date, the SEC has not indicated whether any fines or penalties will be assessed against the Company in relation to these matters. The Company is unable to predict what action the SEC or other regulatory authority may take, if any, in relation to these matters or the impact, if any, of any such action on the Company’s business, operations, cash flows and or financial condition. If any fines or penalties are assessed against the Company they may be material.

b. *Reverse Split*

On May 13, 2016, pursuant to prior stockholder authorization, the Company effected a reverse split of the Company’s common stock, pursuant to which every ten (10) shares of common stock outstanding before the reverse split were converted into one (1) share of common stock after the reverse split. All share and per share amounts, and exercise and conversion prices for all periods presented herein have been adjusted to reflect the reverse split as if it had occurred at the beginning of the first period presented. See notes 3, 5 and 10.

3. Liquidity

The Company incurred recurring losses from operations as well as negative cash flows from operating activities during fiscal 2015, and the six months ended December 31, 2015, and anticipates incurring additional losses and negative cash flows until such time that it can generate sufficient revenue from the sale, customization, or exclusive use and licensing of its proprietary range of injectable drug delivery systems to pharmaceutical and biotechnology customers. These factors raise substantial doubt about the Company's ability to continue as a going concern.

On October 13, 2015, Unilife Medical Solutions, Inc., a subsidiary of the Company (the "Borrower") entered into a Third Amendment to the Credit Agreement, dated March 12, 2014, by and between ROS Acquisition Offshore LP (the "Lender"), an affiliate of OrbiMed Advisors ("OrbiMed"), and the Borrower (the "Credit Agreement", as amended the "Amended Credit Agreement" or the "OrbiMed Financing"). Pursuant to and subject to the terms of the Third Amendment to the Credit Agreement, the Lender agreed to provide Borrower under the Amended Credit Agreement, up to an aggregate additional principal amount of \$10.0 million less fees and expenses. As of December 31, 2015, the Borrower had borrowed \$10.0 million under the Third Amendment to the Credit Agreement. Under the Amended Credit Agreement, Borrower's prepayments and repayments of any unpaid principal amount of the Loans (as defined below) shall include a 10.0% repayment premium (with certain enumerated exceptions). The Amended Credit Agreement contains customary representations and warranties in favor of the Lender. The Amended Credit Agreement requires the Borrower to maintain a cash balance of \$3.0 million, rather than \$5.0 million, and also contains certain other covenants relating to financial performance, cash revenue targets and liquidity targets, among others.

In connection with the Credit Agreement, the Borrower entered into a royalty agreement (the "Royalty Agreement", as amended the "Amended Royalty Agreement") with Royalty Opportunities S.A.R.L. ("ROS") which entitles ROS to receive royalty payments. Concurrent with the Third Amendment to the Credit Agreement, the Borrower entered into a Second Amendment to the Royalty Agreement. Pursuant to and subject to the terms of the Amended Royalty Agreement, Borrower has agreed to pay ROS 4.52% on the first \$50.0 million of net sales (on a cash receipts basis as defined in the Amended Credit Agreement) in each fiscal year, plus 1.75% of net sales in excess of \$50.0 million and up to and including \$100.0 million in each fiscal year, plus 0.438% of net sales in excess of \$100.0 million in each fiscal year. Borrower has the right to buy out the Amended Royalty Agreement at any time on or before March 12, 2018 at a reduced amount. The buy-out amount ranges from approximately \$21.9 million up to a maximum of approximately \$37.2 million. The buy-out amount varies based on when the buy-out option is exercised in each case and would be reduced by amounts previously paid by Borrower to ROS pursuant to the Amended Royalty Agreement. In connection with the Third Amendment to the Credit Agreement and the Second Amendment to the Royalty Agreement, the Borrower also issued an amended and restated promissory note to the Lender (the "Amended and Restated Promissory Note"). The Amended and Restated Promissory Note reflects the Borrower's commitment to repay to the Lender all amounts owed under the Amended Credit Agreement, including the additional amounts contemplated by the Third Amendment to the Credit Agreement.

On November 6, 2015, the Borrower received a waiver from the Lender of the covenant in the Amended Credit Agreement that requires the Borrower to generate \$54.1 million in customer cash receipts from January 1, 2015 to December 31, 2015, subject to certain conditions that the Company satisfied. There were no other changes to the terms of the Amended Credit Agreement or Amended Royalty Agreement in connection with the waiver.

On December 31, 2015, the Borrower entered into the Fourth Amendment to the Credit Agreement with the Lender. Pursuant to and subject to the terms of the Fourth Amendment to the Credit Agreement, the Lender agreed to defer the due date for the December 31, 2015 interest payment (in the amount of \$1.7 million) (the "Interest Payment") to February 5, 2016. Additionally, the Borrower agreed to pay interest on such deferred amount from December 31, 2015 at the rate set forth in the Amended Credit Agreement and to pay all fees and expenses incurred by the Lender in connection with the Fourth Amendment to the Credit Agreement.

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On January 31, 2016, the Borrower entered into the Fifth Amendment to the Credit Agreement with the Lender. Pursuant to and subject to the terms of the Fifth Amendment to the Credit Agreement, the Lender agreed to further defer the due date for the Interest Payment to Tuesday, February 9, 2016. Additionally, the Borrower agreed to pay interest on such deferred amount from December 31, 2015 at the rate set forth in the Amended Credit Agreement and to pay all fees and expenses incurred by the Lender in connection with the Fifth Amendment to the Credit Agreement.

On January 31, 2016, the Company and the Borrower entered into the Third Amendment to the Royalty Agreement with ROS. The Third Amendment to the Royalty Agreement became effective as of January 29, 2016. Pursuant to and subject to the terms of the Third Amendment to the Royalty Agreement, ROS agreed to defer the due date for (i) \$0.1 million of the January 30, 2016 royalty payment to February 1, 2016, and (ii) \$0.7 million of the January 30, 2016 royalty payment to February 9, 2016.

As previously disclosed, on September 14, 2015 the Company implemented a cost reduction and business realignment initiative pursuant to which the Company reduced its headcount by approximately 50 employees, or 17% of its workforce at the time. In connection with this initiative, we recorded a charge of approximately \$0.4 million to operating expenses in the three-month period ended September 30, 2015. On October 14, 2015, the Company implemented a second initiative to further reduce costs and employee headcount. The second cost reduction initiative included the following: (i) a workforce reduction of approximately 20 employees, or approximately 8% of the Company's workforce at the time; and (ii) significant salary reductions for several executives, effective commencing with the October 16th payroll through December 31, 2015, including those described further below. The Company recorded a charge of approximately \$0.1 million from severance costs related to the second cost reduction initiative during the month ended October 31, 2015. Both of these workforce reductions are expected to reduce annual operating costs by approximately \$5.7 million. The Company does not believe that these cost reduction initiatives will negatively impact its ability to serve its customers.

On October 13, 2015, the Company's Chief Executive Officer, Alan D. Shortall, entered into an amendment to his employment agreement with the Company (the "Shortall Amendment"). Pursuant to the Shortall Amendment, Mr. Shortall agreed to a 100% reduction of his base salary and the elimination of Mr. Shortall's car allowance through December 31, 2015.

On October 13, 2015, the Company's Chief Financial Officer, David Hastings, the Company's President and Chief Operating Officer, Ramin Mojdeh, the Company's General Counsel and Secretary, John Ryan, and the Company's Chief Accounting Officer and Treasurer, Dennis Pyers, each entered into amendments to their respective employment agreements with the Company (the "Executive Amendments"). Pursuant to their respective Executive Amendments, Mr. Hastings, Dr. Modjeh, Mr. Ryan and Mr. Pyers agreed to a 50% reduction of their respective base salaries through December 31, 2015. Additionally, under their respective Executive Amendments, Mr. Hastings, Dr. Mojdeh and Mr. Ryan agreed to the elimination of Company-provided automobiles or automobile allowances through December 31, 2015, and Dr. Mojdeh agreed to the elimination of temporary relocation housing payments by the Company through December 31, 2015.

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On November 9, 2015, the Company entered into and closed a Preferred Stock Purchase Agreement (the “Preferred Stock Purchase Agreement”) with an institutional investor (the “Fund”). Pursuant to the Preferred Stock Purchase Agreement, the Company issued and sold to the Fund 790 shares of the Company’s newly designated Series A Redeemable Convertible Preferred Stock of the Company, par value \$0.01 per share (the “Series A Preferred Stock”), at a 5% original issue discount and at a purchase price of \$10,000 per share for total gross proceeds to the Company of \$7.5 million. The Series A Preferred Stock was convertible into shares of the Company’s common stock, par value \$0.01 per share (the “Common Stock”), at a fixed conversion price of \$10.00 per share (the “Conversion Price”). The shares of Series A Preferred Stock were offered and sold in a registered direct offering (the “Offering”) pursuant to the Company’s shelf registration statement (File No. 333-197122), which was declared effective by the United States Securities and Exchange Commission (the “SEC”) on October 3, 2014. See note 5 “Equity Transactions and Share-Based Compensation” for more information regarding the Preferred Stock Purchase Agreement.

On July 29, 2015, the Company entered into a Controlled Equity Offering Sales Agreement (the “New Sales Agreement”) with Cantor Fitzgerald & Co., pursuant to which the Company may, from time to time, issue and sell shares of common stock, having an aggregate offering price of up to \$25.0 million. Through December 31, 2015, the Company has issued 380,011 shares for net proceeds of \$4.6 million under the New Sales Agreement.

On July 29, 2015, the Company entered into an equity purchase agreement (the “LPC Purchase Agreement”) with Lincoln Park Capital Fund, LLC (“LPC”), pursuant to which the Company may sell, from time to time, to LPC up to \$45.0 million in shares of the Company’s common stock through July 2017, subject to certain limitations and conditions set forth in the LPC Purchase Agreement. Through December 31, 2015, the Company issued 324,465 shares of common stock to LPC and received net proceeds of approximately \$4.8 million after expenses.

Under the terms of the LPC Purchase Agreement, the Company was required to obtain the consent of LPC prior to completing the Preferred Stock Purchase Agreement. The Company obtained such consent on November 9, 2015 and contemporaneously issued a five-year warrant to purchase 90,000 shares of Common Stock to LPC at an exercise price of \$10.00 per share. The Company performed a Black-Scholes valuation on the warrant and valued the warrant at \$5.40 per share of Common Stock. Accordingly, the Company recorded \$0.5 million during the three months ended December 31, 2015 associated with the issuance of the warrant as a component of redeemable convertible preferred stock issuance cost.

On September 2, 2015, Unilife announced that in response to third-party initiated expressions of interest, the Company’s Board of Directors had engaged Morgan Stanley & Co. LLC to conduct a review of strategic alternatives to maximize shareholder value (the “Strategic Process”). As more fully set forth below, this process is continuing. There can be no assurance that this exploration process will result in any initiatives, agreements or transactions that will enhance shareholder value.

On December 2, 2015, the Company received a written notice from the Listing Qualifications Department of The NASDAQ Stock Market LLC (“Nasdaq”) indicating that, for the 30 consecutive business days ended December 1, 2015, the bid price for the Company’s common stock had closed below the \$1.00 per share minimum bid price requirement for continued listing on The Nasdaq Global Market under Nasdaq Listing Rule 5550(a)(2). In accordance with Nasdaq Listing Rule 5810(c)(3)(A), the Company has been provided an initial period of 180 calendar days, or until May 31, 2016, to regain compliance. If at any time before May 31, 2016, the closing bid price of the Company’s common stock is at least \$1.00 per share for a minimum of 10 consecutive business days, Nasdaq will provide the Company with written confirmation of compliance and the matter will be closed.

If the Company does not regain compliance with Nasdaq Listing Rule 5550(a)(2) within the initial 180-calendar day compliance period, the Company may be eligible for an additional 180-calendar day compliance period if it transfers the listing of its common stock to the NASDAQ Capital Market, provided that it meets the applicable market value of publicly held shares requirement for continued listing and all other applicable requirements for initial listing on The Nasdaq Capital Market (except for the minimum bid price requirement) and provides written notice of its intention to cure the minimum bid price deficiency during the additional 180-day compliance period. However, if it appears to the Nasdaq Staff that the Company will not be able to cure such deficiency, or if the Company is otherwise not eligible or does not submit an application requesting the additional compliance period, the Nasdaq Staff would notify the Company that its securities would be subject to delisting.

The Company is actively monitoring its performance with respect to the listing standards and is currently considering available options to resolve the deficiency and regain compliance with Nasdaq Listing Rule 5550(a)(2), including, without limitation, the Strategic Process.

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On December 31, 2015, the Company entered into an exclusivity agreement (the “Exclusivity Agreement”) with Amgen Inc. (the “Counterparty”). The Exclusivity Agreement was entered into in connection with the previously announced Strategic Process by the Company of potential strategic alternatives, including a strategic partnership with one or more parties or the licensing of some of the Company’s proprietary technologies (a “Potential Transaction”). Pursuant to the Exclusivity Agreement, the Company agreed to negotiate a Potential Transaction exclusively with the Counterparty until the earlier of January 31, 2016 or the Counterparty notifies the Company in writing that it has ceased to consider a Potential Transaction (the “Exclusivity Period”). Pursuant to the Exclusivity Agreement, the Counterparty paid to the Company a non-refundable \$15.0 million deposit (the “Deposit”) as consideration for non-exclusive and exclusive rights and licenses provided for in the Exclusivity Agreement. On January 31, 2016, the Company entered into an amendment (the “Exclusivity Amendment”) to the Exclusivity Agreement. The Exclusivity Amendment extended the Exclusivity Period until 11:59 PM U.S. Pacific Time on Friday, February 5, 2016 while the parties continue in good faith to negotiate a definitive agreement. On February 5, 2016, the Company entered into a second amendment (the “Second Exclusivity Amendment”) to the Exclusivity Agreement with the Counterparty. The Second Exclusivity Amendment extends the Exclusivity Period until 11:59 PM U.S. Pacific Time on Monday, February 15, 2016 while the parties continue in good faith to negotiate a definitive agreement.

As of February 5, 2016, the Company’s cash balance was approximately \$13.2 million, including restricted cash of \$2.3 million. The Company believes its cash and restricted cash will provide the Company with sufficient liquidity to fund the Company’s operations only to March 31, 2016. However, the Company may raise additional capital through other sources, including through the New Sales Agreement with Cantor Fitzgerald & Co and through the LPC Purchase Agreement. The Company is also pursuing the Strategic Process. If the Company is able to complete a strategic transaction, the Company expects to have sufficient liquidity to operate the business through at least 12 months from the date of the consolidated financial statements included in this report. In addition, the Company may also pursue alternative sources of financing. However, the Company does not have any guaranteed sources of financing and there can be no assurance that cash from customer agreements or proceeds from the LPC Purchase Agreement or the New Sales Agreement will be available when needed, as such sources of liquidity are not entirely within its control. If it is unable to obtain additional financing or engage in a strategic transaction on acceptable terms and when needed, the Company may default under one or more of its debt obligations. A breach of any of the covenants related to its debt instruments could result in a higher rate of interest to be paid or the lenders could elect to declare all amounts outstanding under the applicable agreements to be immediately due and payable. If the lenders were to make such a demand for repayment, the Company would be unable to pay the obligations as it does not have existing facilities or sufficient cash on hand to satisfy these obligations. These factors, and the factors described above, continue to raise substantial doubt about the Company’s ability to continue as a going concern. The accompanying consolidated financial statements have been prepared on a going concern basis, which contemplates the realization of assets and satisfaction of liabilities in the ordinary course of business. The consolidated financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or the amounts and classification of liabilities that might result from the outcome of this uncertainty.

The Company continues to have discussions with current and prospective customers for many active programs in its commercial pipeline and has executed several agreements featuring a combination of revenue streams and cash payments, including exclusivity fees, device customization programs and product sales. Given the substantial size, complexity and long-term duration of many of these prospective agreements, some can take a significant time to negotiate and finalize.

4. Summary of Significant Accounting Policies

Principles of Consolidation

The consolidated financial statements include the accounts of Unilife Corporation and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation.

References to A\$ mean the lawful currency of the Commonwealth of Australia. References to € or euros are to the lawful currency of the European Union.

Use of Estimates

The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates are principally in the areas of revenue recognition, royalty liability valuation, preferred stock conversion liability (the “Preferred Stock Conversion”) valuation, and share-based compensation expense. Management bases its estimates on historical experience and various assumptions that are believed to be reasonable under the circumstances. Actual results could differ from those estimates.

Inventories

Inventories consist primarily of raw materials. Inventories are stated at the lower of cost or market, with cost determined using the first in, first out method. The Company routinely reviews its inventory for obsolete, slow moving or otherwise impaired inventory and records estimated impairments in the periods in which they occur.

Share-Based Compensation

The Company grants equity awards to its employees, directors, consultants and service providers. Certain employee and director awards vest over stated vesting periods and others also require achievement of specific performance or market conditions. The Company expenses the grant-date fair value of awards to employees and directors over their respective vesting periods. To the extent that employee and director awards vest only upon the achievement of a specific performance condition, expense is recognized over the period from the date management determines that the performance condition is probable of achievement through the date they are expected to be met. Awards granted to consultants and service providers are sometimes granted for past services, in which case their fair value is expensed on their grant date, while other awards require future service, or the achievement of performance or market conditions. Timing of expense recognition for consultant awards is similar to that of employee and director awards; however, aggregate expense is re-measured each quarter-end based on the then fair value of the award through the vesting date of the award. The Company estimates the fair value of stock options using the Black-Scholes option-pricing model, with the exception of market-based grants, which are valued based on the Monte Carlo option pricing model. Option pricing methods require the input of highly subjective assumptions, including the expected stock price volatility.

Revenue Recognition

The Company recognizes revenue from industrialization and development fees, licensing fees and product sales. The Company recognizes revenue from sales of products at the time of shipment when title passes to the customer. The Company recognizes up front, non-refundable fees ratably over the expected life of the related agreement. Revenue from industrialization and development fees is recognized as services are rendered or upon achievement of the “at risk” substantive milestone events, which represent the culmination of the earnings process related to such events. Substantive milestones can include specific deliverables such as product design, prototype availability, user tests, manufacturing proof of principle and the various steps to complete the industrialization of the product. The terms of these contracts provide for customer payments to be made as services are rendered or substantive milestones are achieved. The Company considers whether a milestone is substantive at the inception of the agreement. The consideration earned from the achievement of a milestone must meet all of the following criteria to be considered substantive:

- It is commensurate with either of the Company’s performance to achieve the milestone, or the enhancement of the value of the delivered item(s) as a result of a specific outcome resulting from the Company’s performance to achieve the milestone;
- It relates solely to past performance; and
- It is reasonable relative to all of the deliverables and payment terms (including other potential milestone consideration) within the arrangement.

Payment terms are considered to be standard commercial terms. Revenue is recognized when each substantive milestone has been achieved and the Company has no future performance obligations related to the substantive milestone. Fees for completed, substantive milestones, which are dependent upon customer acceptance for non-refundable payment or, if paid, are refundable pending customer acceptance are recognized upon customer acceptance or the termination of refund rights.

Fair Value Measurements

In accordance with Accounting Standards Codification (“ASC”) 820, Fair Value Measurements and Disclosures, the Company measures fair value based on a hierarchy for inputs used in measuring fair value that maximizes the use of observable inputs and minimizes the use of unobservable inputs by requiring that observable inputs be used when available. The fair value hierarchy is broken down into three levels based on the source of inputs.

The carrying value of financial instruments such as accounts receivable, accounts payable and accrued expenses are reasonable estimates of their fair value because of the short maturity of these items. The Company believes that the current carrying amount of its long-term debt approximates fair value because the interest rates on these instruments are similar to those rates that the Company would currently be able to receive for similar instruments of comparable maturity.

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The Company has elected to measure its royalty agreement liability at fair value in accordance with ASC 825, Financial Instruments. The fair value of the royalty liability is based on significant inputs not observable in the market, which require it to be reported as a Level 3 liability within the fair value hierarchy. The valuation uses a methodology and assumptions that the Company believes would be made by a market participant. In particular, the valuation analysis uses a discounted cash flow methodology under the income approach based on the present value sum of payments to be made in the future. The fair value of the royalty agreement liability is estimated by applying a risk adjusted discount rate to the adjusted royalty revenue stream. These fair value estimates are most sensitive to changes in the payment stream.

The Company accounts for derivative financial instruments in accordance with ASC 815-40, Derivative and Hedging — Contracts in Entity’s Own Equity. Instruments which do not have fixed settlement provisions are deemed to be derivative instruments. The Preferred Stock Conversion valuation analysis uses the estimated dividend rate based on the volume-weighted average price of the Company’s common stock at the date the Preferred Stock Conversion is measured.

Interest Expense

The Company recognizes interest expense in the consolidated statements of operations and comprehensive loss for all debt instruments using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating the interest expense over the relevant period. The effective interest rate is the rate that exactly discounts the estimated future cash payments through the expected life of the financial instrument to the net carrying amount of the financial liability. The application of the method has the effect of recognizing expense payable on the instrument evenly in proportion to the amount outstanding over the period to maturity or repayment. In calculating the effective interest rate, the Company estimates cash flows considering all contractual terms of the financial instrument, including fees for early redemption and all other premiums and discounts.

Recently Issued Accounting Pronouncements

In May 2014, FASB issued ASU 2014-09 “Revenue from Contracts with Customers”. The guidance requires an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to a customer. The ASU will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. In August 2015, the FASB issued ASU 2015-14 “Revenue from Contracts with Customers” which deferred the effective date of ASU 2014-09 for all entities by one year to annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early application is permitted only as of annual periods beginning after December 15, 2016, including interim reporting periods within that reporting period. With the deferral, the new standard is effective for the Company, on July 1, 2018, with early adoption permitted one year prior. The standard permits the use of either the retrospective or cumulative effect transition method. The Company has not selected a transition method nor has it determined the effect of the standard on its ongoing financial reporting.

In June 2014, FASB issued ASU 2014-12 “Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period” which is part of ASC 718: Compensation-Stock Compensation. The guidance requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition and not be reflected in the estimate of the grant-date fair value of the award. The guidance is effective for annual periods beginning after December 15, 2015. The guidance can be applied prospectively for all awards granted or modified after the effective date or retrospectively to all awards with performance targets outstanding as of the beginning of the earliest annual period presented in the financial statements and to all new or modified awards thereafter. The Company does not expect a material impact on its financial condition, results of operations or cash flows from the adoption of this guidance.

In August 2014, FASB issued ASU 2014-15 “Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern”. The guidance requires an entity to perform a going concern assessment by evaluating its ability to meet its obligations for a look-forward period of one year from the financial statement issuance date. Disclosures are required if it is probable an entity will be unable to meet its obligations within the look-forward period. Incremental substantial doubt disclosure is required if the probability is not mitigated by management’s plans. The guidance is effective for all entities for the first annual period ending after December 15, 2016 and interim periods thereafter. Early application is permitted. The Company is currently evaluating the impact this guidance will have on its financial disclosures; however, as the guidance only impacts disclosure, the adoption of this guidance is not expected to have any impact on the Company’s financial condition, results of operations and cash flows.

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In April 2015, FASB issued ASU 2015-03 “Simplifying the Presentation for Debt Issuance Costs”. The guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The existing recognition and measurement guidance for debt issue costs is not affected by the new guidance. In August 2015, the FASB issued a clarification that debt issue costs related to line-of-credit arrangements were not within the scope of the new guidance and therefore should continue to be accounted for as deferred assets in the balance sheet, consistent with existing GAAP. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The Company is currently evaluating the impact this guidance will have on its financial statement presentation and any disclosures.

In July 2015, FASB issued ASU 2015-11 “Simplifying the Measurement of Inventory”. The guidance changes the measurement principle for inventory from the lower of cost or market to lower of cost and net realizable value for entities that do not measure inventory using the last-in, first-out or retail inventory method. Net realizable value is defined as the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation, which is consistent with existing GAAP. The guidance is effective for fiscal years beginning after December 15, 2016 and is to be applied prospectively. The Company is currently evaluating the impact this guidance will have on its financial statement presentation and any disclosures.

In November 2015, the FASB issued new guidance simplifying the balance sheet classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The current requirement that deferred tax liabilities and assets of a tax-paying component of an entity be offset and presented as a single amount is not affected by the new guidance. The new guidance is effective for the Company on July 1, 2017, with early adoption permitted as of the beginning of an interim or annual reporting period. The new guidance may be applied either prospectively to all deferred tax liabilities and assets or retrospectively to all periods presented. The Company is evaluating the impact that the new guidance will have on its consolidated financial statements and related disclosures; however, at the present time the Company has recorded a valuation allowance against its deferred tax assets based on the history of losses incurred.

In January 2016, the FASB issued new guidance related to the recognition and measurement of financial assets and liabilities. The new guidance makes targeted improvements to GAAP impacting equity investments (other than those accounted for under the equity method or consolidated), financial liabilities accounted for under the fair value election, and presentation and disclosure requirements for financial instruments, among other changes. The new guidance is effective for the Company on July 1, 2018, with early adoption prohibited other than for certain provisions. The Company is evaluating the impact that the new guidance will have on its consolidated financial statements and related disclosures.

5. Equity Transactions and Share-Based Compensation

The Company recognized share-based compensation expense related to equity awards to employees, directors, consultants and service providers of \$3.4 million and \$2.8 million during the three months ended December 31, 2015 and 2014, respectively, and \$7.0 million and \$4.7 million during the six months ended December 31, 2015 and 2014, respectively.

Stock Options and Warrants

The Company has granted stock options to certain employees and directors under the Employee Share Option Plan (the “Plan”). The Plan is designed to assist in the motivation and retention of employees and directors and to recognize the importance of employees and directors to the long-term performance and success of the Company. The Company has also granted stock options to certain service providers outside of the Plan. The majority of the options to purchase common stock vest on the anniversary of the date of grant, which ranges from one to three years. Additionally, certain stock options vest upon the closing price of the Company’s common stock reaching certain minimum levels, as defined in the agreements. Share-based compensation expense related to options granted to employees and directors is recognized on a straight-line method over the related vesting term. Share-based compensation expense related to options granted to service providers is recognized ratably over each vesting tranche of the options.

In November 2009, the Company adopted the 2009 Stock Incentive Plan (the “Stock Incentive Plan”). The Stock Incentive Plan initially provided for a maximum of 600,000 shares of common stock to be reserved for the issuance of stock options and other stock-based awards. Commencing on January 1, 2012, and on each January 1st thereafter, through January 1, 2014, the share reserve automatically adjusted so that it was equal to 17.5% of the weighted average number of shares of common stock outstanding reduced by the sum of any shares of common stock issued under the Stock Incentive Plan and any shares of common stock subject to outstanding awards under the Stock Incentive Plan.

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In November 2014 the Stock Incentive Plan was amended and restated (the “Amended and Restated 2009 Stock Incentive Plan” or “Amended Stock Plan”) to change how the number of shares of common stock that may be issued under the Amended Stock Plan is calculated to increase the number of shares of common stock available for issuance under the Amended Stock Plan by 10.0 million and to reapprove the Amended Stock Plan for purposes of refreshing the stockholder approval requirement.

Under the terms of the LPC Purchase Agreement, the Company was required to obtain the consent of LPC prior to completing the Preferred Stock Purchase Agreement. The Company obtained such consent on November 9, 2015 and contemporaneously issued a five-year warrant to purchase 90,000 shares of Common Stock to LPC at an exercise price of \$10.00 per share. The Company performed a Black-Scholes valuation on the warrant and valued the warrant at \$5.40 per share of Common Stock. Accordingly, the Company recorded \$0.5 million during the three months ended December 31, 2015 associated with the issuance of the warrant as a component of redeemable convertible preferred stock issuance cost.

The following is a summary of activity related to stock options held by employees and directors during the six months ended December 31, 2015:

	<u>Number of Options</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding as of July 1, 2015	250,817	\$ 37.82		
Canceled	(12,083)	32.85		
Expired	(8,000)	61.90		
Outstanding as of December 31, 2015	<u>230,734</u>	<u>37.25</u>	<u>6.1</u>	<u>\$ 0</u>
Exercisable as of December 31, 2015	<u>179,234</u>	<u>\$ 37.36</u>	<u>6.0</u>	<u>\$ 0</u>

The following is a summary of activity related to stock options and warrants held by persons other than employees and directors during the six months ended December 31, 2015:

	<u>Number of Options & Warrants</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Life (in years)</u>	<u>Aggregate Intrinsic Value (in thousands)</u>
Outstanding as of July 1, 2015	105,000	\$ 42.01		
Granted	90,000	10.00		
Expired	(60,000)	53.00		
Outstanding as of December 31, 2015	<u>135,000</u>	<u>\$ 15.79</u>	<u>4.2</u>	<u>\$ 0</u>
Exercisable as of December 31, 2015	<u>45,000</u>	<u>\$ 27.37</u>	<u>1.9</u>	<u>\$ 0</u>

The aggregate intrinsic value is defined as the difference between the market value of the Company’s common stock as of the end of the period and the exercise price of the in-the-money stock options. There were no options exercised during the three and six months ended December 31, 2015 and 2014, respectively.

There were no options granted during the three and six months ended December 31, 2015 and 2014, respectively.

Restricted Stock

The Company has granted shares of restricted stock to certain employees, directors and consultants under the Amended Stock Incentive Plan. During the period prior to vesting, the holder of the non-vested restricted stock will have the right to vote and the right to receive all dividends and other distributions declared. All non-vested shares of restricted stock are reflected as outstanding; however, they have been excluded from the calculation of basic earnings per share.

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For employees, the fair value of restricted stock is measured on the date of grant using the price of the Company's common stock on that date. Share-based compensation expense for restricted stock issued to employees is recognized on a straight-line basis over the requisite service period, which is generally the longest vesting period. For restricted stock granted to consultants, the fair value of the awards will be re-valued on a quarterly basis and marked to market until vested. Share-based compensation expense for restricted stock issued to consultants is recognized ratably over each vesting tranche. The following is a summary of activity related to restricted stock awards during the six months ended December 31, 2015:

	Number of Restricted Stock Awards	Weighted Average Grant Date Fair Value
Unvested as of July 1, 2015	1,073,185	\$ 28.83
Granted	128,500	10.43
Vested	(149,000)	31.92
Cancelled	(35,449)	34.52
Unvested as of December 31, 2015	<u>1,017,236</u>	<u>\$ 25.86</u>

Preferred Stock Purchase Agreement

On November 9, 2015, the Company entered into and closed a Preferred Stock Purchase Agreement (the "Preferred Stock Purchase Agreement") with an institutional investor (the "Fund"). Pursuant to the Preferred Stock Purchase Agreement, the Company issued and sold to the Fund 790 shares of the Company's newly designated Series A Redeemable Convertible Preferred Stock of the Company, par value \$0.01 per share (the "Series A Preferred Stock"), at a 5% original issue discount and at a purchase price of \$10,000 per share for total gross proceeds to the Company of \$7.5 million. Prior to the full conversion of the Series A Preferred stock (as more fully discussed below), the Series A Preferred Stock was convertible into shares of the Company's common stock, par value \$0.01 per share (the "Common Stock"), at a fixed conversion price of \$10.00 per share (the "Conversion Price"). The shares of Series A Preferred Stock were offered and sold in a registered direct offering (the "Offering") pursuant to the Company's shelf registration statement (File No. 333-197122), which was declared effective by the SEC on October 3, 2014.

From the date of issuance, each share of Series A Preferred Stock accrued dividends at a rate of 8.0% per annum (the "Dividend Rate"), subject to adjustment as discussed below, on its face value of \$10,000 (the "Face Value"), payable upon conversion or redemption of such share and when, as and if otherwise declared by the Company's Board of Directors. Dividends were paid either in cash or in shares of Common Stock at the Company's sole discretion and were valued at (i) if there was no Trigger Event (as defined below), (A) 95.0% of the average of the 5 lowest individual daily volume weighted average prices of the Common Stock on the Trading Market during the applicable Measurement Period, which may be non-consecutive, less \$0.50 per share of Common Stock, not to exceed (B) 100% of the lowest sales price on the last day of such Measurement Period less \$0.50 per share of Common Stock or (ii) following any Trigger Event, (A) 80.0% of the lowest daily volume weighted average price during any Measurement Period for any conversion by Holder, less \$1.00 per share of Common Stock, not to exceed (B) 80.0% of the lowest sales price on the last day of any Measurement Period, less \$1.00 per share of Common Stock. "Trigger Event" is defined as including, among other events, our breach of the Certificate of Designations and any transaction documents, the occurrence of certain defaults under our material agreements, the suspension of our NASDAQ listing, bankruptcy, the appointment of a receiver, our failure to timely file any report under the Exchange Act or the unenforceability of any material provision of the Certificate of Designations. "Trading Market" is defined as the principal trading exchange or market for the Common Stock. "Measurement Period" is defined as the period beginning on the date of issuance of any such shares of Series A Preferred Stock and ending, if no Trigger Event has occurred 3 trading days, and if a Trigger Event has occurred 30 trading days, after the number of shares have been delivered with respect to a conversion notice.

The Dividend Rate was adjusted (i) downward by an amount equal to 100 basis points for each amount, if any, equal to \$0.50 per share of Common Stock that the volume weighted average price of our Common Stock on any trading day rose above \$15.00, down to a minimum of 0.0%; and (ii) upward by an amount equal to 150 basis points for each amount, if any, equal to \$0.50 per share of Common Stock that volume weighted average price of our Common Stock on any trading day fell below \$7.00, up to a maximum of 15.0%. In addition, the Dividend Rate was adjusted upward by 10.0% upon any Trigger Event.

Each share of Series A Preferred Stock was convertible into such number of shares of Common Stock equal to the Face Value divided by the Conversion Price. Upon any conversion, the Company issued Common Stock at the Conversion Price and paid the dividend and conversion premium ("Dividend") (in one instance in cash and the remaining instances in stock at the Company's discretion). The Company was prohibited from issuing shares of Common Stock upon conversion of the Series A Preferred Stock if, as a result of the conversion, the holder, together with its affiliates, would beneficially own more than 4.99% of the total number of

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shares of the Company's Common Stock then issued and outstanding, subject to adjustment up to 9.99% upon 61 days' notice from the investor, which is referred to herein as the "Beneficial Ownership Limitation". The Preferred Stock Purchase Agreement also contains representations, warranties and covenants customary for transactions of this type.

In November 2015 and December 2015, the Fund delivered to the Company notices of conversion totaling an aggregate of 300 shares of Series A Preferred Stock (the "Initial Conversion Notices") and the Company issued an aggregate of 1,025,496 shares of Common Stock and paid \$0.3 million in cash to satisfy the Initial Conversion Notices. Calculations in the Initial Conversion Notices were based upon the occurrence of a Trigger Event.

As described above, the amount of any Dividend varied based on the Company's share price during the applicable Measurement Period. If the Company's share price declined during the Measurement Period with respect to a conversion notice, the number of shares owed to the Fund pursuant to such conversion notice would have changed and the Company was then required to issue the additional shares owed. During December 2015, the Company issued an additional 518,784 shares of Common Stock as additional Dividend with respect to the Conversion Notices as a result of a decline in the share price during the applicable Measurement Periods.

On January 4, 2016, the Fund delivered to the Company a notice of conversion for 40 shares of Series A Preferred Stock (the "January 4th Conversion Notice" and together with the Initial Conversion Notices, the "Conversion Notices") and the Company issued the Fund 246,036 shares of Common Stock. During January 2016, the Company issued an additional 162,706 shares of Common Stock as additional Dividend with respect to the Conversion Notices as a result of a decline in the share price during the applicable Measurement Periods.

On February 3, 2016, Company entered into a First Amendment (the "First Amendment to the Preferred Stock Purchase Agreement") to the Preferred Stock Purchase Agreement with the Fund. Pursuant to the First Amendment to the Preferred Stock Purchase Agreement, the Company acknowledged that the Fund had at all times fully and completely complied with all of its obligations under the Preferred Stock Purchase Agreement. The Fund has converted all of the Preferred Shares, and the parties entered into the First Amendment to the Preferred Stock Purchase Agreement to resolve the final and total of number shares of the Company's Common Stock to be delivered by the Company to the Fund as a result of the conversion.

Pursuant to the First Amendment to the Purchase Agreement, in full accord and satisfaction of all obligations under the Purchase Agreement and the remaining transaction documents (as defined in the Preferred Stock Purchase Agreement), the Company agreed to issue to the Fund an additional 831,668 shares (collectively, the "Shares") of Common Stock, the approximate amount that may be issued under Nasdaq Listing Rule 5635(d) without shareholder approval which the Company did not obtain. On February 3, 2016, the Company issued and delivered to the Fund 725,000 of the Shares. The Company agreed to notify its transfer agent to issue the remaining 106,668 Shares immediately upon written request by the Fund.

Pursuant to the First Amendment to the Purchase Agreement, upon the timely delivery of the remaining 106,668 Shares, the Company will have no further obligations to the Fund with respect to any of the Series A Preferred Stock, Conversion Notices (as defined in the Company's Certificate of Designations of Preferences, Rights and Limitations of Series A Preferred Stock) or any of the transaction documents. Following the issuance of the remaining 106,668 Shares, the Company will have issued 2,784,693 shares of Common Stock to the Fund in connection with the Preferred Stock Purchase Agreement, as amended by the First Amendment to the Preferred Stock Purchase Agreement. The Fund is no longer the holder of any Series A Preferred Stock.

The First Amendment to the Preferred Stock Purchase Agreement contains a mutual release of claims between the Company and the Fund and contains customary representations and warranties made by such parties. The Company also agreed to provide the Fund with indemnification for breaches of the First Amendment to the Preferred Stock Purchase Agreement and for certain third-party claims, and the Fund agreed to continue the same activity restrictions provided for in the Preferred Stock Purchase Agreement.

The Company accounted for the Series A Preferred Stock and the related Dividend as two separate units, i.e. Series A Preferred Stock and Preferred Stock Conversion. The Company determined that the Series A Preferred Stock should be classified as temporary equity based on the requirement to provide registered shares of the Company's Common Stock upon conversion and the related Dividend should be classified as a liability at fair value. Therefore, the 490 shares of Series A Preferred Stock outstanding at December 31, 2015 are not reflected as outstanding in the Stockholders' Deficit Section of the consolidated balance sheet. Accordingly, the proceeds recorded as temporary equity for the Series A Preferred Stock represents the proceeds from the issuance less initial fair value of Preferred Stock Conversion and related issuance costs. As a result, on November 9, 2015, the Company recorded the net proceeds of \$7.2 million between the Series A Preferred Stock (\$2.8 million) and the initial Preferred Stock Conversion at its fair value (\$4.4 million). The Company adjusted the fair value of the Preferred Stock Conversion and the redemption value of the Redeemable Convertible Preferred Stock, Series A, at December 31, 2015 to \$4.8 million and \$2.5 million, respectively, based on the remaining 490 shares of Redeemable Convertible Preferred Stock.

6. Property, Plant and Equipment

Property, plant and equipment consist of the following:

	December 31, 2015	June 30, 2015
	(in thousands)	
Building	\$ 32,363	\$ 32,359
Machinery and equipment	29,270	27,530
Computer software	2,981	2,910
Furniture and fixtures	1,386	1,345
Construction in progress	34,053	17,601
Land	2,036	2,036
Leasehold improvements	437	270
	102,526	84,051
Less: accumulated depreciation and amortization	(20,765)	(17,903)
Property, plant and equipment, net	<u>\$ 81,761</u>	<u>\$ 66,148</u>

Construction in progress as of December 31, 2015 consisted of amounts incurred in connection with machinery and equipment and facility related costs, including capitalized interest. Interest capitalized during the three and six month periods ended December 31, 2015 was \$0.7 million and \$1.4 million, respectively.

The Company is past due with respect to certain billings from the general contractor and sub-contractors related to building and clean room expansion activities for machinery and equipment accounted for as construction in progress as of December 31, 2015. The general contractor and certain sub-contractors have filed mechanics liens against the Company's property in connection with the amounts past due in the amount of approximately \$5.8 million.

7. Goodwill

The changes in the carrying amount of goodwill during the six months ended December 31, 2015 are as follows:

	(in thousands)
Balance as of July 1, 2015	\$ 9,685
Foreign currency translation	(436)
Balance as of December 31, 2015	<u>\$ 9,249</u>

8. Accrued Expenses

Accrued expenses consist of the following:

	December 31, 2015	June 30, 2015
	(In thousands)	
Accrued payroll and other employee related expenses	\$ 3,751	\$ 2,781
Accrued cost related to construction in process	12,127	314
Accrued other	2,264	1,979
Total accrued expenses	<u>\$ 18,142</u>	<u>\$ 5,074</u>

9. Long-Term Debt

Long-term debt consists of the following:

	December 31, 2015	June 30, 2015
	(In thousands)	
10.25% Term loan, due March 2020	\$ 66,660	\$55,518
Royalty agreement liability	13,180	9,930
6.00% Mortgage loan, due December 2031	12,594	12,812
5.00% Commonwealth of Pennsylvania financing authority loan, due January 2021	2,006	2,033
Other	698	142
	95,138	80,435
Less: current portion of long-term debt	1,949	775
Total long-term debt	<u>\$ 93,189</u>	<u>\$79,660</u>

Term Loan

On March 12, 2014, (the “Closing Date”), the Borrower entered into the Credit Agreement with the Lender. Pursuant to and subject to the terms of the Credit Agreement, the Lender agreed to provide term loans to the Borrower in the aggregate principal amount of up to \$60.0 million. A first tranche loan of \$40.0 million was drawn on the Closing Date and a further two tranches each of \$10.0 million were committed by the Lender and were to be funded on each of December 15, 2014 and June 15, 2015, subject to and in accordance with the terms of the Credit Agreement. On September 30, 2014, the Borrower entered into a First Amendment to the Credit Agreement to accelerate the funding of the two additional tranches pursuant to which it received the proceeds from the first \$10.0 million tranche on October 1, 2014 and the proceeds from the second \$10.0 million tranche on November 10, 2014.

On October 13, 2015, the Company entered into the Third Amendment to the Credit Agreement, pursuant to which the Lender agreed to provide Borrower under the Amended Credit Agreement, up to an aggregate additional principal amount of \$10.0 million, less fees and expenses incurred in connection with the Third Amendment to the Credit Agreement and the Second Amendment to the Royalty Agreement. Through December 31, 2015, the Company received the full amount of additional proceeds under the Amended Credit Agreement in the amount of \$10.0 million. The Third Amendment to the Credit Agreement also modified the Borrower’s liquidity covenant whereby, under the Amended Credit Agreement, the Borrower is now required to maintain a cash balance of \$3.0 million as of October 13, 2015, rather than \$5.0 million.

The Loan bears interest at 9.25% per annum plus the greater of three-month LIBOR or 1.0%, payable in cash quarterly and as otherwise described in the Amended Credit Agreement. A default interest rate of 14.25% per annum plus the greater of three-month LIBOR or 1.0% shall apply during the existence of a default under the Amended Credit Agreement. The Loans are interest-only until March 12, 2020 (the “Maturity Date”).

Unless the loan facility is otherwise terminated earlier pursuant to the terms of the Amended Credit Agreement, the Borrower is required to repay in full the unpaid principal amount of the Loans drawn down, together with all accrued and unpaid interest thereon plus a 10.0% repayment premium on the Maturity Date. The Borrower can make voluntary repayments at any time of any unpaid principal amount of the Loans, plus a 10.0% repayment premium. The Borrower must make mandatory prepayments in certain prescribed circumstances, including, without limitation, certain dispositions of assets and certain casualty events. In such events, the Borrower must prepay to Lender 100% of the net cash proceeds received.

The obligations of the Borrower under the Amended Credit Agreement are guaranteed by the Company and each of its subsidiaries and the Amended Credit Agreement is secured by the assets of the Company and its subsidiaries. The security interests granted by Borrower, the Company, Unilife Cross Farm LLC (“Cross Farm”), Unilife Medical Solutions Limited (“USML”) and Unित्रact Syringe Pty Limited (“Unित्रact Syringe”) are evidenced by, among other things, the Pledge and Security Agreement, dated as of March 14, 2014, by the Borrower, the Company, Cross Farm, USML, and Unित्रact Syringe in favor of Lender, for itself and as agent for Royalty Opportunities S.A.R.L. (“ROS”), the Mortgage and Security Agreement, dated March 12, 2014, by and between Cross Farm and Lender, for itself and as agent of ROS, and the General Security Deed, dated as of March 12, 2014, by Unित्रact Syringe, USML, and the Company in favor of the Lender, for itself and as agent of ROS.

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The Amended Credit Agreement also contains certain customary covenants, as well as covenants relating to achieving minimum cash revenue targets at the end of each calendar year, maintaining a minimum liquidity target of \$3.0 million, and the execution of certain customer and employment agreements in form and substance satisfactory to lender. In the event of default, Borrower must prepay to Lender any unpaid principal amount of the loans drawn down, together with all accrued and unpaid interest thereon plus a 10.0% repayment premium. An event of default could also result in the Lender enforcing its security over the assets of Borrower, the Company, Cross Farm, UMSL and Unitract Syringe in accordance with the terms of the Amended Credit Agreement and the related security agreements. On June 30, 2015, the Company entered into a Second Amendment to the Credit Agreement to remove the minimum cash revenue target for the six month period ended June 30, 2015. On November 6, 2015, the Borrower received a waiver from the Lender of the minimum cash revenue target for the calendar year ending December 31, 2015. As of and for the six months ended December 31, 2015, the Company is in compliance with all the loan covenants set forth in the Amended Credit Agreement. However, there can be no assurance that the Company will be able to maintain the minimum liquidity target during the 12-month period from December 31, 2015.

On October 13, 2015, the Borrower entered into the Second Amendment to the Royalty Agreement (the “Amended Royalty Agreement”) with ROS, which will entitle ROS to receive royalty payments. Pursuant to and subject to the terms of the Second Amendment to the Royalty Agreement, Borrower has agreed to pay ROS 4.52% on the first \$50.0 million of net sales in each fiscal year, plus 1.75% of net sales in excess of \$50.0 million and up to and including \$100.0 million in each fiscal year, plus 0.438% of net sales in excess of \$100.0 million in each fiscal year, up from 3.875%, 1.50% and 0.375%, respectively. Borrower continues to have the right to buy out the Amended Royalty Agreement at any time; however, under the Amended Royalty Agreement, the buy-out amounts have increased. To buy-out the Amended Royalty Agreement on or before March 12, 2016, the Borrower would pay approximately \$21.9 million under the Second Amendment to the Royalty Agreement rather than approximately \$13.1 million under the First Amendment to the Royalty Agreement. Thereafter, the buy-out amount increases on March 13 of each year up to a maximum of approximately \$37.2 million under the Second Amendment to the Royalty Agreement, as compared to approximately \$26.3 million under the First Amendment to the Credit Agreement. The buy-out amount varies based on when the buy-out option is exercised and would, in each case, be reduced by amounts previously paid by Borrower to ROS pursuant to the Amended Royalty Agreement. In the event of default under the Amended Credit Agreement, OrbiMed will have a put option that will make the royalty amounts due immediately. The Amended Royalty Agreement has a term commencing on the Closing Date and ending on the earlier of (i) the tenth anniversary of the Closing Date and (ii) the date of payment of the purchase price pursuant to the exercise of a put option by the Lender or the exercise of a buy-out option by the Borrower. As the Company has elected to value the Amended Royalty Agreement at fair value, the put option feature does not meet the criterion of ASC 815-15-25-1b and thus is not separated from the host contract and accounted for as a derivative instrument.

On December 31, 2015, the Borrower entered into a Fourth Amendment to the Credit Agreement with the Lender. Pursuant to and subject to the terms of the Fourth Amendment to the Credit Agreement, the Lender agreed to defer the due date for the December 31, 2015 interest payment (in the amount of \$1.7 million) (the “Interest Payment”) to February 5, 2016. Additionally, the Borrower agreed to pay interest on such deferred amount from December 31, 2015 at the rate set forth in the Amended Credit Agreement and to pay all fees and expenses incurred by the Lender in connection with the Fourth Amendment to the Credit Agreement.

On January 31, 2016, the Borrower entered into the Fifth Amendment to the Credit Agreement with the Lender. Pursuant to and subject to the terms of the Fifth Amendment to the Credit Agreement, the Lender agreed to further defer the due date for the Interest Payment to Tuesday, February 9, 2016. Additionally, the Borrower agreed to pay interest on such deferred amount from December 31, 2015 at the rate set forth in the Amended Credit Agreement and to pay all fees and expenses incurred by the Lender in connection with the Fifth Amendment to the Credit Agreement.

On January 31, 2016, the Borrower entered into the Third Amendment to the Royalty Agreement with ROS. The Third Amendment to the Royalty Agreement became effective as of January 29, 2016. Pursuant to and subject to the terms of the Third Amendment to the Royalty Agreement, ROS agreed to defer the due date for (i) \$0.1 million of the January 30, 2016 royalty payment to February 1, 2016, and (ii) \$0.7 million of the January 30, 2016 royalty payment to February 9, 2016.

The Company determined that the Amended Credit Agreement and the Amended Royalty Agreement should be accounted for as two separate units. Accordingly, the Company allocated the proceeds from the Loans on a residual basis between the two units based on their relative fair values. As a result, on the Closing Date, the royalty liability was determined to have a fair value of \$7.0 million and the initial \$40.0 million provided under the Credit Agreement was allocated the remaining proceeds of \$33.0 million. The \$20.0 million from the two additional tranches that were funded during the three months ended December 31, 2014 and the \$10.0 million received during the three months ended December 31, 2015 were reflected as incremental debt. The carrying value of the debt will be accreted to the face value over the loan term based on the effective interest rate. The royalty liability will be adjusted to fair value on a quarterly basis. As of December 31, 2015, the fair value of the royalty liability was \$13.2 million.

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There are cross-defaults in the Amended Credit Agreement, Metro Bank loan (as described below) and Keystone/CFA Loan (as described below), so that a default under one agreement could trigger a default under the others. Metro Bank, the Lender under the Amended Credit Agreement, Keystone Redevelopment Group, LLC and Commonwealth Financing Authority are parties to an intercreditor agreement.

Mortgage Loan

In October 2010, Cross Farm entered into the Loan Agreement with Metro Bank, pursuant to which Metro Bank provided Cross Farm with two mortgage loans in the amounts of \$14.25 million (“First Mortgage”) and \$3.75 million (“Second Mortgage”). The proceeds received were used to finance the purchase of land and construction of the Company’s corporate headquarters and manufacturing facility in York, Pennsylvania. In connection with the credit agreement, the Company entered into the Metro Bank Amendment pursuant to which the Second Mortgage due October 2020 was repaid. Cross Farm is paying principal and interest on the First Mortgage, with interest at a fixed rate of 6.00%.

The original Metro Bank loan documents contain certain customary covenants, including the maintenance of a debt service reserve account in the amount of \$2.4 million, classified as restricted cash on the consolidated balance sheets, which will remain in place until Cross Farm and Metro agree on the financial covenants. In addition the Company is required to maintain a cash balance of \$5.0 million inclusive of the \$2.4 million reserve account. The terms of the original Metro Bank loan documents allow the Company to use the debt service reserve account to pay monthly debt service on the mortgage loans, so long as the balance in the account is at least \$1.6 million and is replenished to \$2.4 million every six months. The Company is in compliance with its debt covenants as of and for the six months ended December 31, 2015. However, there can be no assurance that the Company will be able to maintain the debt service reserve account balance for a period of 12 months from December 31, 2015. Cross Farm may prepay the loan without penalty. The U.S. Department of Agriculture has guaranteed \$8.0 million of the mortgage loan due December 2031. In connection with the First Mortgage, the Company has given Metro Bank a lien on the building and real estate and the debt service reserve account.

Commonwealth of Pennsylvania Financing Authority Loan

In December 2010, Cross Farm received a \$2.25 million loan from Keystone Redevelopment Group, LLC (“Keystone”) for land and the construction of its current manufacturing facility. The loan bears interest at a rate of 5.00% per annum, matures in January 2021 and is secured by a third mortgage on the facility. Keystone assigned the loan and mortgage (the “Keystone/CFA Loan”) to the Commonwealth of Pennsylvania Financing Authority. In connection with the Keystone/CFA Loan, Cross Farm entered into an intercreditor agreement by which the Commonwealth of Pennsylvania agreed that it would not exercise its rights in the event of a default by Cross Farm without the consent of Metro Bank, which holds the first mortgage on the facility.

Loan from Mr. Shortall

On September 30, 2015, the Company obtained a loan in the amount of \$0.6 million from Alan Shortall, the Company’s Chairman and Chief Executive Officer, which was payable on demand by Mr. Shortall (subject to the right of the Lender to consent to the repayment) and required the payment of interest to Mr. Shortall at the minimum applicable federal rate (0.54% at September 30, 2015).

10. Net Loss Per Share

The Company's net loss per share is as follows:

	Three Months Ended December 31,		Six Months Ended December 31,	
	2015	2014	2015	2014
(In thousands, except share and per share data)				
Numerator				
Net loss	\$ (25,423)	\$ (19,387)	\$ (51,287)	\$ (41,649)
Deemed dividend on Series A Preferred Stock	(1,047)	—	(1,047)	—
Net loss attributable to common stockholders	<u>\$ (26,470)</u>	<u>\$ (19,387)</u>	<u>\$ (52,334)</u>	<u>\$ (41,649)</u>
Denominator				
Weighted average number of shares used to compute basic net loss per share	13,377,229	10,757,745	12,915,014	10,631,486
Effect of dilutive options to purchase common stock	—	—	—	—
Weighted average number of shares used to compute diluted net loss per share	<u>13,377,229</u>	<u>10,757,745</u>	<u>12,915,014</u>	<u>10,631,486</u>
Basic and diluted net loss per share	<u>\$ (1.98)</u>	<u>\$ (1.80)</u>	<u>\$ (4.05)</u>	<u>\$ (3.92)</u>

Due to the Company's net losses, unvested shares of restricted stock (participating securities) totaling 1,007,211 and 550,158 were excluded from the calculation of basic and diluted net loss per share during the three months ended December 31, 2015 and 2014, respectively, and unvested shares of restricted stock (participating securities) totaling 1,035,368 and 395,182 were excluded from the calculation of basic and diluted net loss per share during the six months ended December 31, 2015 and 2014, respectively.

In addition, stock options and warrants (non-participating securities) totaling 333,189 and 366,341 during the three months ended December 31, 2015 and 2014, respectively, were excluded from the calculation of diluted net loss per share and stock options (non-participating securities) totaling 319,929 and 366,341 during the six months ended December 31, 2015 and 2014, respectively, were excluded from the calculation of diluted net loss per share, as their effect would have been anti-dilutive. Certain of these stock options were excluded solely due to the Company's net loss position. Had the Company reported net income during the three months ended December 31, 2015 and 2014, these shares would have had an effect of 0 and 9,961 diluted shares, respectively, for purposes of calculating diluted net income per share. Had the Company reported net income during the six months ended December 31, 2015 and 2014, these shares would have had an effect of 0 and 7,381 diluted shares, respectively, for purposes of calculating diluted net income per share. The impact of the potential conversion of the remaining preferred shares totaling 1,240,409 diluted shares were also excluded from the calculation for the three months ended December 31, 2015.

11. Contingencies

From time to time, the Company is involved in various legal proceedings, claims, suits and complaints arising out of the normal course of business. Based on the facts currently available to the Company, management believes that these claims, suits and complaints are adequately provided for, covered by insurance, without merit or that it is not probable that an unfavorable outcome will result.

In addition, the Company is or was involved in the following legal proceedings. A former employee, Talbot Smith, who was terminated for cause by Unilife, filed a civil complaint in the United States District Court of the Eastern District of Pennsylvania on August 30, 2013, and an amended complaint on March 5, 2014, alleging that he was wrongly terminated in retaliation for making allegations about the Company's compliance practices. Following the discovery process, Mr. Smith dismissed his claims against the Company with prejudice. In connection with the resolution and dismissal of the action, Mr. Smith agreed to make a payment to the Company to settle counter claims the Company had brought against him. Mr. Smith received no payment as part of the resolution and dismissal of his claims against the Company, his attorney received a reduced portion of her fees from the Company's insurer, and the matter is now concluded.

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As previously disclosed, subsequent to the filing of an OSHA complaint by Mr. Smith, we received a subpoena from the staff of the U.S. Securities and Exchange Commission (the “Staff”) requesting the Company to provide certain information to the Staff, which is generally consistent with the meritless allegations made by Mr. Smith in his OSHA complaint. In his complaint filed in the United States District Court for the Eastern District of Pennsylvania, Mr. Smith stated that he provided the Staff with information about his allegations in July and August 2012. The Company responded to that subpoena and has received additional subpoenas from the Staff, requesting additional information consistent with the first subpoena. The Company is cooperating fully with the Staff and has provided the requested information.

On January 8, 2014, the Company was served with a derivative complaint filed in the Delaware Chancery Court by Cambridge Retirement System, a purported stockholder of the Company, against its Board of Directors to recover allegedly “excessive and wasteful” compensation paid to the non-executive directors since 2010. The Company believes that these allegations are baseless and without merit and the Company and the directors are defending themselves vigorously. In February 2014, the Company filed a motion to dismiss the complaint in lieu of an answer. On June 26, 2014, the Court granted the Company’s motion to dismiss with respect to the directors’ equity grants, but denied the motion with respect to their cash compensation. The Company filed an answer to the remaining claims on July 11, 2014. On June 4, 2015, the parties entered into a Memorandum of Understanding agreeing to the basic terms of a non-monetary settlement of the action. The parties are negotiating the final terms of a stipulated settlement to be submitted to the Court for approval.

On September 14, 2015, the Company was served with a complaint filed in the Superior Court of the State of Connecticut by Bidel, Inc. (“Bidel”) seeking (1) to temporarily enjoin the Company from entering into a transaction that will jeopardize the Company’s ability to perform its obligations under its agreement with Bidel and (2) damages under the Connecticut Unfair Trade Practices Act. Bidel alleged that the Company had engaged in unfair and deceptive trade practices purportedly misrepresenting its ability and willingness to satisfy its obligation under the parties’ agreement and requesting additional payments from Bidel to satisfy the Company’s obligations. The Company believes that Bidel’s claims and demands for relief are wholly without merit and the Company is vigorously defending the action and the matter is currently in discovery. Additionally, Bidel filed a demand for arbitration with the American Arbitration Association (AAA) asserting that the Company had breached its obligations relating to the timing and scope of its performance under the parties’ contract. The Company believes that Bidel’s claims and demands with the AAA are wholly without merit and will vigorously arbitrate the contractual dispute.

The Company does not believe there will be any material impact to the Company or its business as a result of any of these matters.

12. Revenue

The Company recognized \$4.5 million and \$5.4 million of revenue during the three months ended December 31, 2015 and 2014, respectively. The Company recognized \$7.7 million and \$6.8 million of revenue during the six months ended December 31, 2015 and 2014, respectively.

During the three months ended December 31, 2015 three customers accounted for 39%, 30% and 25% of consolidated revenue, respectively. During the three months ended December 31, 2014 two customers accounted for 60% and 28% of consolidated revenue, respectively. During the six months ended December 31, 2015 four customers accounted for 32%, 28%, 25% and 11% of consolidated revenue, respectively. During the six months ended December 31, 2014 two customers accounted for 48% and 34% of consolidated revenue, respectively.

During the three and six months ended December 31, 2015, the Company recognized \$2.1 million and \$3.9 million of revenue, respectively, related to substantive milestones, as follows:

The Company recognized \$1.2 million and \$1.7 million of revenue during the three and six months ended December 31, 2015, respectively, pursuant to a feasibility agreement with a customer related to substantive milestones that were completed and accepted. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon substantive milestones. An initial up-front payment of \$0.1 million was determined to be non-substantive and was recognized on a straight line basis over the expected term of the agreement. The remaining milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the six months ended December 31, 2015 are as follows:

- \$0.5 million for development and delivery of additional human factor stimuli and a report on updated product requirements; and
- \$1.2 million for development and delivery of semi-functional prototypes and related feasibility, product requirement, and risk management reports.

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There are no remaining substantive milestones under this agreement.

The Company recognized \$0.9 million and \$1.5 million of revenue during the three and six months ended December 31, 2015, respectively, pursuant to a master services and supply agreement with a customer related to substantive milestones that were completed and accepted. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon substantive milestones. An initial up-front payment of \$1.1 million was determined to be non-substantive and is being recognized on a straight-line basis over the expected term of the agreement. The remaining milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the six months ended December 31, 2015 are as follows:

- \$0.6 million for development and delivery of a complete system layout;
- \$0.3 million for development and delivery of components for a human factor study; and
- \$0.6 million for development and delivery of feasibility devices for testing;

The remaining substantive milestones as of December 31, 2015 are as follows:

- \$0.6 million for development and delivery of a clinical production process;
- \$0.4 million for development and delivery of components for a human factor study;
- \$0.4 million for completion of testing of assembly equipment;
- \$0.3 million for completion of filling process of clinical devices;
- \$0.4 million for delivery of containers for the filling process; and
- \$0.3 million for delivery of devices for clinical studies.

The Company recognized \$0.0 million and \$0.3 million of revenue during the three and six months ended December 31, 2015, pursuant to a feasibility agreement with a customer related to substantive milestones that were completed and accepted. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon milestones. An initial up-front payment of \$0.5 million was determined to be non-substantive and was recognized on a straight-line basis over the expected term of the agreement. The remaining milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the six months ended December 31, 2015 are as follows:

- \$0.3 million for development and delivery of a summary report related to testing and documentation activities.

There are no remaining substantive milestones under this agreement.

The Company recognized \$0.0 million and \$0.4 million of revenue during the three and six months ended December 31, 2015, pursuant to a master services and supply agreement with a customer related to substantive milestones that were completed and accepted. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon substantive milestones. An initial up-front payment of \$1.0 million was determined to be non-substantive and was recognized on a straight-line basis over the expected term of the agreement. The remaining milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the six months ended December 31, 2015 are as follows:

- \$0.4 million for development and delivery of feasibility devices for testing;

The remaining substantive milestones as of December 31, 2015 are as follows:

- \$0.6 million for delivery of design transfer for the Device and the related filling equipment and fixtures; and
- \$0.3 million for commissioning of the pilot line.

During the three and six months ended December 31, 2015, the Company recognized \$2.4 million and \$3.8 million, respectively, in revenue related to services rendered on a time and materials basis, proportional performance method and/or straight line basis over the requisite service period pursuant to customer agreements to provide various customization and development services.

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On December 31, 2015, the Company entered into an exclusivity agreement (the “Exclusivity Agreement”) with Amgen Inc. (the “Counterparty”). The Agreement was entered into in connection with the previously announced Strategic Process by the Company of potential strategic alternatives, including a strategic partnership with one or more parties or the licensing of some of the Company’s proprietary technologies (a “Potential Transaction”). Pursuant to the Agreement, the Company agreed to negotiate a Potential Transaction exclusively with the Counterparty until the earlier of January 31, 2016 (which has been extended to February 15, 2016) or the Counterparty notifies the Company in writing that it has ceased to consider a Potential Transaction (the “Exclusivity Period”). Pursuant to the Agreement, the Counterparty paid to the Company a non-refundable \$15.0 million deposit (the “Deposit”), which was recorded in long-term deferred revenue as of December 31, 2015, as consideration for the following non-exclusive and exclusive rights and licenses provided for in the Agreement:

- The Company granted to the Counterparty a perpetual, worldwide non-exclusive license under the patents, know-how and technology of the Company for the Company to develop, manufacture and supply wearable injector devices existing as of the closing (including any improvements or modified versions) for use with certain large volume drug products of the Counterparty. In addition, the Company granted to the Counterparty a perpetual, worldwide exclusive license under the patents, know-how and technology of the Company for the Company to develop, manufacture and supply the Company’s 1mL wearable injector existing as of the closing (including any improvements or modified version to the same) for use with certain small volume drug products. Except as discussed below, the wearable injector devices will be developed and manufactured by the Company. The Counterparty will be required to pay the Company an amount for each device manufactured by the Company, based on annual volumes and device features.

In addition to the Agreement, the Company has a pre-existing Master Feasibility and Customization Agreement with the Counterparty entered into in the ordinary course of our business on December 2, 2015.

During the three and six months ended December 31, 2014, the Company recognized \$3.0 million and \$3.2 million, respectively, of revenue related to substantive milestones, as follows:

The Company recognized \$2.3 million and \$2.3 million of revenue during the three and six months ended December 31, 2014, respectively, pursuant to a feasibility agreement with a customer related to substantive milestones that were completed and accepted during the year. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon substantive milestones. An initial up-front payment of \$0.1 million was determined to be non-substantive and is being recognized on a straight-line basis over the expected term of the agreement. The remaining milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the three and six months ended December 31, 2014 were as follows:

- \$0.4 million for development and delivery of a detailed project plan and a failure mode and effects analysis report;
- \$0.4 million for development and delivery of a report on preliminary product requirements and a risk management plan; and
- \$1.5 million for development and delivery of human factor stimuli and related supporting documents.

The remaining substantive milestones as of December 31, 2014 were as follows:

- \$0.4 million for development and delivery of additional human factor stimuli;
- \$0.5 million for development and delivery of additional human factor stimuli and a report on updated product requirements; and
- \$1.2 million for development and delivery of semi-functional prototypes and related feasibility, product requirement, and risk management reports.

The Company recognized \$0.5 million and \$0.5 million of revenue during the three and six months ended December 31, 2014, respectively, pursuant to a feasibility agreement with a customer related to substantive milestones that were completed and accepted during the year. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon milestones. An initial up-front payment of \$0.5 million was determined to be non-substantive and is being recognized on a straight-line basis over the expected term of the agreement. The remaining milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the three and six months ended December 31, 2014 were as follows:

- \$0.5 million for development and delivery of a report on device design options as well as potential manufacturing and assembly processes;

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The remaining substantive milestones as of December 31, 2014 were as follows:

- \$0.4 million for development and delivery of product samples and related supporting documents; and
- \$0.2 million for development and delivery of a summary report related to testing and documentation activities.

The Company recognized \$0.2 million and \$0.2 million of revenue during the three and six months ended December 31, 2014, respectively, pursuant to a feasibility agreement with a customer related to substantive milestones that were completed and accepted during the year. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon milestones. The milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the three and six months ended December 31, 2014 were as follows:

- \$0.1 million for development and delivery of a report related to human factor studies and quality requirements; and
- \$0.1 million for development and delivery of devices for compatibility and stability functional testing and related reporting;

The remaining substantive milestone as of December 31, 2014 was as follows:

- \$0.1 million for development and delivery of devices for human factor study and related reporting.

The Company recognized \$0.0 million and \$0.2 million of revenue during the three and six months ended December 31, 2014, respectively, pursuant to a feasibility agreement with a customer related to substantive milestones that were completed and accepted. This agreement provides for certain customization and development activities for a drug delivery system to be performed for the customer and provides for payments to be made upon the completion of agreed-upon milestones. The milestones were determined to be substantive at the time the agreement was entered into. Substantive milestones that were achieved during the three and six months ended December 31, 2014 were as follows:

- \$0.1 million for development of customized devices for testing; and
- \$0.1 million for development and delivery of testing activities and related reporting.

There are no remaining substantive milestones under this agreement.

During the three and six months ended December 31, 2014, the Company recognized \$2.4 million and \$3.6 million, respectively, in revenue related to services rendered on a time and materials basis, proportional performance method and/or straight line basis over the requisite service period pursuant to customer agreements to provide various customization and development services.

13. Fair Value Measurements

The Company categorizes its assets and liabilities measured at fair value into a fair value hierarchy that prioritizes the inputs used in pricing the asset or liability. The three levels of the fair value hierarchy are as follows:

Level 1 — Quoted prices in active markets for identical assets or liabilities.

Level 2 — Observable inputs other than quoted prices included in Level 1, such as quoted prices for similar assets and liabilities in active markets; quoted prices for identical or similar assets and liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

The levels in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

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The following table presents the Company's liabilities that are measured at fair value on a recurring basis for the periods presented:

	Total Fair Value Measurements	Basis of Fair Value Measurement		
		Quoted Market Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
(In thousands)				
December 31, 2015:				
Royalty agreement liability	\$ 13,180	\$ —	\$ —	\$ 13,180
Preferred stock conversion liability	4,802	—	—	4,802
June 30, 2015:				
Royalty agreement liability	\$ 9,930	\$ —	\$ —	\$ 9,930

The following table presents the changes in the fair value of the level 3 financial instruments for the six months ended December 31, 2015.

	Royalty Agreement liability	Preferred Stock Conversion Liability
June 30, 2015	\$ 9,930	\$ —
Initial measurement	—	4,424
Cash payments	(309)	(280)
Non-cash conversions	—	(3,710)
Increase in liability	3,559	4,368
December 31, 2015	\$ 13,180	\$ 4,802

Following is a description of the valuation methodologies used to measure the royalty agreement liability and the Preferred Stock Conversion at fair value. There have been no changes in the methodology used during the six months ended December 31, 2015:

The fair value of the royalty agreement liability is based on a discounted cash flow methodology under the income approach based on the present value sum of payments expected to be made in the future. The fair value is estimated by applying a risk adjusted discount rate to the expected royalty payment stream. These fair value estimates are most sensitive to changes in the payment stream and royalty rates. The fair value of the Preferred Stock Conversion is based on the estimated dividend rate which is based on the volume-weighted average price of the Company's common stock at the date the Preferred Stock Conversion is measured. These fair value estimates are most sensitive to changes in the market price of the Company's common stock.

Other Financial Instruments

The carrying amount of the Company's cash equivalents, which includes certificates of deposit, accounts receivable, accounts payable and accrued expenses approximate fair value due to the short term maturities of these items. The estimated fair value of the Company's debt approximates its carrying value based upon the rates that the Company would currently be able to receive for similar instruments of comparable maturity.

14. Related Party Transactions

Loan from Mr. Shortall

On September 30, 2015, the Company obtained a loan in the amount of \$600,000 from Alan Shortall, the Company's former Chairman and Chief Executive Officer, which was payable on demand by Mr. Shortall (subject to the right of the Lender to consent to the repayment) and required the payment of interest to Mr. Shortall at the minimum applicable federal rate (0.54% at September 30, 2015).

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Bosnjak Mortgage Correspondence

In July 2015, Mr. Shortall and Mr. Bosnjak, without authorization from or knowledge of the Company or its Board, caused to be transmitted to a mortgage broker for Mr. Shortall from Mr. Bosnjak correspondence that contained inaccurate statements about the Company's financial support for Mr. Shortall's purchase of and relocation to a new home. The investigation into the matters described in this paragraph did not identify any financial loss to the Company and the Company has corrected the inaccurate statements to the mortgage broker.

Shortall Fund Transfers

Mr. Shortall deposited \$2,264,475 of his own funds into the Company's bank account on June 29, 2015 and then caused the Company to disburse from the Shortall Funds \$1,351,553 to third parties to complete Mr. Shortall's purchase of his new home on July 23, 2015, and the remainder back to himself on July 28, 2015.

For the six months ended December 31, 2015, under Mr. Shortall's direction, the Company accepted a check from Mr. Shortall in the aggregate amount of approximately \$6,000 and disbursed the same amount of funds to Mr. Shortall's designee but did not deposit such check from Mr. Shortall until nineteen days after the Company's disbursement of the funds. The Company believes such transaction constituted a loan from the Company to Mr. Shortall. There were no such transactions for the three month period ended December 31, 2015 or for the three or six month periods ended December 31, 2014.

The investigation into the matters described in this section entitled "Shortall Fund Transfers" did not identify any financial loss to the Company.

Bosnjak Loan Payments and Unreimbursed Personal Expenses

For the three and six months ended December 31, 2015 and 2014, Mr. Shortall caused approximately \$0 and \$12,000, and \$24,000 and \$37,000, respectively in Company funds to be transmitted to a third party on behalf of Mr. Bosnjak which had no business purpose for the Company. The Company believes that these payments constituted loans from the Company to Mr. Bosnjak, and the Company is evaluating potential actions to recover these funds. The collection of such amounts is uncertain and the Company has recorded approximately \$0 and \$12,000, and \$24,000 and \$37,000 as Selling, General and Administrative Expense in the three and six months ended December 31, 2015 and 2014, respectively.

For the three and six months ended December 31, 2015 and 2014, Mr. Shortall caused the Company to pay for personal expenses of which approximately \$200 and \$600, and \$16,000 and \$23,000, respectively were not repaid to the Company (the "Unreimbursed Personal Expenses"). The Company believes the Unreimbursed Personal Expenses constituted loans from the Company to Mr. Shortall, and the Company has demanded repayment of the Unreimbursed Personal Expenses. The collection of such amounts is uncertain and the Company has recorded approximately \$200 and \$600, and \$16,000 and \$23,000 as Selling, General and Administrative Expense in the three and six months ended December 31, 2015 and 2014, respectively.

Advanced Withholding Payments

In July 2015, in connection with the vesting of restricted shares of the Company's common stock, the Company paid associated withholding taxes on behalf of two executive officers, its Vice President of Quality and Regulatory Affairs and Chief Compliance Officer and its former President and Chief Operating Officer, in an aggregate amount of approximately \$126,000 prior to being reimbursed by such executive officers. Such executive officers repaid the Company in full within a range of 18 to 28 days from the date of the withholding payment. The Company believes such advances constituted loans.

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Unilife Corporation:

We have reviewed the consolidated balance sheet of Unilife Corporation and subsidiaries as of December 31, 2015, the related consolidated statements of operations and comprehensive loss for the three-month and six-month periods ended December 31, 2015 and 2014, the related consolidated statement of stockholders' deficit for the six-month period ended December 31, 2015, and the related consolidated statements of cash flows for the six-month periods ended December 31, 2015 and 2014. These consolidated financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the unaudited interim consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Unilife Corporation and subsidiaries as of June 30, 2015, and the related consolidated statements of operations and comprehensive loss, stockholders' deficit, and cash flows for the year then ended (not presented herein); and in our report dated September 14, 2015, except for the revisions to the consolidated financial statements as discussed in note 2 of those financial statements and the restatement as to the effectiveness of internal control over financial reporting regarding the various material weaknesses, as to which the date is October 21, 2016, which expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying consolidated balance sheet as of June 30, 2015, is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

As discussed in note 2 of the Company's unaudited interim consolidated financial statements as of December 31, 2015, the unaudited interim consolidated financial statements have been revised to reflect a May 13, 2016 10:1 reverse split of the Company's common stock as if it had occurred at the beginning of the first period presented and to correct immaterial errors and omitted disclosures regarding restricted cash and related party transactions.

Note 3 of Unilife Corporation's audited consolidated financial statements as of June 30, 2015, and for the year then ended, discloses that the Company had incurred recurring losses from operations and has limited cash resources. Our auditors' report on those consolidated financial statements dated September 14, 2015, except for the revisions to the consolidated financial statements as discussed in note 2 of those consolidated financial statements and the restatement as to the effectiveness of internal control over financial reporting regarding the various material weaknesses, as to which the date is October 21, 2016, includes an explanatory paragraph referring to the matters in note 3 of those consolidated financial statements, and indicating that these matters raised substantial doubt about the Company's ability to continue as a going concern. As indicated in note 3 of the Company's unaudited interim consolidated financial statements as of December 31, 2015, and for the three- and six-month periods then ended, the Company has continued to incur losses from operations and has limited cash resources. The accompanying interim financial information does not include any adjustments that might result from the outcome of this uncertainty.

/s/ KPMG LLP

Harrisburg, Pennsylvania

February 9, 2016, except for the revisions to unaudited interim the consolidated financial statements discussed in note 2, as to which the date is October 21, 2016.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended ("Exchange Act")) are designed to provide reasonable assurance that information required to be disclosed in reports we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the SEC and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

All internal control systems, no matter how well designed and tested, have inherent limitations, including, among other things, the possibility of human error, circumvention or disregard. Therefore, even those systems of internal control that have been determined to be effective can provide only reasonable assurance that the objectives of the control system are met and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As outlined in the Explanatory Note to this December 2015 10-Q Amendment, the Company's current management discovered violations of Company policies and procedures and possible violations of laws and regulations by Alan Shortall, the Company's former Chief Executive Officer, and Jim Bosnjak, the Company's former Chairman and member of the Board of Directors ("Board"). Mr. Shortall's employment with the Company ceased on March 11, 2016, and Mr. Bosnjak resigned from the Board on August 24, 2015. The Board established a Special Committee to oversee an independent investigation. External counsel conducted the investigation with the assistance of an advisory firm with forensic accounting expertise (the "Investigation").

The Investigation did not identify any material financial loss to the Company. However, the control deficiencies, identified by the Investigation and described below, resulted in certain immaterial misstatements as of and for the quarter ended December 31, 2015, which have been corrected in the consolidated financial

statements contained in this December 2015 10-Q Amendment. The Investigation also identified certain related party and other transactions which the Company had not publicly disclosed or recorded in its relevant financial statements originally filed with the SEC.

In connection with the Investigation, the Company carried out an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures as of December 31, 2015. Previously, based on an earlier such evaluation, Mr. Shortall and the Company's CFO had concluded that the Company's disclosure controls and procedures were effective as of December 31, 2015 at a reasonable assurance level. However, due to the material weaknesses in internal control over financial reporting as described in "Management's Report on Internal Control over Financial Reporting" below, our current CEO and CFO have concluded that our disclosure controls and procedures were not effective, and were not operating at a reasonable assurance level as of December 31, 2015.

Management's Report on Internal Control over Financial Reporting

The Company's management is responsible for establishing and maintaining effective internal control over financial reporting and for assessing the effectiveness of internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Internal control over financial reporting refers to a process designed by, or under the supervision of, our Chief Executive Officer and our Chief Financial Officer and effected by our Board, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of our management and members of our Board; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of our assets that could have a material effect on our financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

A material weakness (as defined in Rule 12b-2 under the Exchange Act) is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of a company's annual or interim financial statements will not be prevented or detected on a timely basis. Previously, under the supervision of Mr. Shortall and the Company's CFO, and oversight of the Board, management conducted an evaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015, based on the criteria established in Internal Control – Integrated Framework (1992) (the "COSO 1992 Framework") issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based upon this evaluation, management determined that our internal control over financial reporting was effective as of December 31, 2015.

Management, under the supervision of the Company's new CEO and the Company's CFO, and oversight of the Board, conducted a reevaluation of the effectiveness of the Company's internal control over financial reporting as of December 31, 2015 based on the COSO 1992 Framework. Based on this reevaluation, management has determined, because of the findings from the Investigation, and the Company's inability to rely on certain personnel, processes and internal controls, that various material weaknesses existed at December 31, 2015, as are described below. In light of such material weaknesses, management has concluded that the Company's internal control over financial reporting was ineffective as of December 31, 2015.

The Company, under the oversight of the Board and the leadership of Mr. Shortall, did not have an effective control environment, risk assessment process, information and communication process and monitoring activities; specifically:

- The Company failed to establish a tone at the top that demonstrated its commitment to integrity and ethical values. Mr. Shortall created instances where certain personnel participated in the override of Company's policies and procedures and internal controls without exercising the appropriate professional skepticism and failed to communicate the override of controls to others.
- The Company did not have an effective annual process in place to ensure that all employees, including management, confirmed their compliance with the Company's Business Conduct Policy and that deviations from the expected standards of conduct were identified and remedied in a timely manner.
- The Company did not have a sufficient number of trained resources with assigned responsibility and accountability for financial reporting processes and the design and effective operation of internal controls in accordance with the COSO 1992 Framework.
- The Company did not have an effective, documented and continuous risk assessment process to identify and analyze risks of financial misstatement due to error and/or fraud, including management override of controls, and determine an appropriate action to manage the financial reporting risks.
- The Company did not have effective information and communication and monitoring controls to ensure the timely identification and communication of related party transactions to financial reporting personnel, management, and the Board, to enable appropriate financial reporting and disclosure of such transactions.

As a consequence of the inappropriate tone at the top and the above-mentioned entity level deficiencies, the following process level control deficiencies were identified:

- Ineffective operation of certain process level controls due to management override of controls resulting from the dominant influence of the former CEO, and ineffective process-level controls over the accounting and disclosure of related party transactions and the evaluation of transactions with senior executives and a former Board member that represented loans and advances. In addition, the Company did not involve those employees with the appropriate knowledge and expertise to evaluate the business purpose of the transactions and compliance with laws and regulations.
- Ineffective general information technology controls (GITCs) for the significant IT platforms due to inadequate IT resources. Specifically, the Company did not have effectively designed and documented program change controls and effective user access controls over IT operating systems, databases and IT applications. Accordingly, process level automated controls and compensating manual controls that were dependent upon the

information derived from the IT systems were determined to be ineffective.

Certain of these control deficiencies resulted in immaterial misstatements in the consolidated financial statements as at and for the quarter ended December 31, 2015 which were corrected as described in Note 2 to the Company's consolidated financial statements included in this December 2015 10-Q Amendment. Other deficiencies resulted in no misstatements in the financial statements. However, these control deficiencies create a reasonable possibility that a material misstatement to the consolidated financial statements will not be prevented or detected on a timely basis. Accordingly, we concluded that the control deficiencies represent material weaknesses in the Company's internal control over financial reporting and our internal control over financial reporting was not effective as of December 31, 2015.

Remediation of Material Weaknesses

The Company continues to work, to strengthen our internal control over financial reporting. We are committed to ensuring that such controls are designed and operating effectively. Our Board and management take internal controls over financial reporting and the integrity of the Company's financial statements seriously and believe that the remediation steps described below, including with respect to personnel changes, were and are essential steps to establishing and maintaining strong and effective internal controls over financial reporting and addressing the tone at the top concerns that contributed to the material weaknesses identified. None of these remediation steps took place as of December 31, 2015. The following actions and plans will be or have been implemented subsequent to the end of the December 31, 2015 fiscal quarter:

- The Board replaced Mr. Shortall effective March 2016 with our then interim and now current CEO, John Ryan, effective March 2016. Mr. Bosnjak resigned in August 2015. Mary Kate Wold, President and CEO of the Church Pension Group, a former finance executive at Wyeth and previously Unilife's Vice Chair and Lead Independent Director, assumed the role of Board Chair. In addition, the Controller is no longer serving as Chief Accounting Officer, Controller or Treasurer. The Company appointed David Hastings as the Company's Chief Accounting Officer and Treasurer along with Mr. Hastings' current role as Chief Financial Officer. The Company has also appointed a new independent Board member.
- Management has evaluated and revised the assignment of authorities and financial reporting responsibilities and roles and has made staffing changes including, without limitation, those noted above; and the Company will increase technical training to those employees involved in the financial reporting process.
- The Company has increased communication and will increase training to employees and the Board regarding the ethical values of the Company and the requirement to comply with laws, rules, regulations, and Company policies, including the Business Conduct Policy and Insider Trading Policy, and the importance of accurate and transparent financial reporting. In addition, the Company will revise its process to ensure that all employees annually confirm compliance with the Company's Business Conduct Policy and that deviations are identified and timely remediated.
- The Company will implement a regularly recurring risk assessment process focused on identifying and analyzing risks of financial misstatement due to error and/or fraud, including management override of controls.
- Under the supervision of the Board, the Company will emphasize to key leadership the importance of setting appropriate tone at the top and of appropriate behavior with respect to accurate financial reporting and adherence to the Company's internal control over financial reporting framework and accounting policies.
- The Board will work with the Company to implement an internal audit function and develop a risk based plan that will monitor the Company's adherence to its policies and procedures including, without limitation, those policies and procedures related to the identification and disclosure of related party transactions, and to review any areas of concern or emphasis that the Board has identified as part of its oversight.
- The Company will update its policies and procedures to require the identification of related party transactions, transactions with senior executives, and to enhance the review and approval for these types of transactions and ensure their disclosure; and will train all employees on such updated policies.
- The Company will design and implement general information technology controls specifically, program change controls, user access controls designed to restrict IT and financial users' access and monitoring controls designed to actively monitor program changes and user access activities.

Changes in Internal Control over Financial Reporting

Except for the material weaknesses disclosed above and identified as part of the Investigation, there were no changes in our internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the quarter ended December 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. As noted above, subsequent to the end of the fiscal quarter ended December 31, 2015 and after the completion of the Investigation, the Company began the process of enhancing existing controls and designing and implementing additional controls and procedures in response to the material weaknesses.

PART II. OTHER INFORMATION**Item 6. Exhibits**

The exhibits to this report are listed in the Exhibit Index below.

Exhibit No.	Description of Exhibit	Included Herewith
10.1	Third Amendment to Credit Agreement, dated October 13, 2015 by and among Unilife Medical Solutions, Inc. and ROS Acquisition Offshore LP. is incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed October 16, 2015	
10.2	Fourth Amendment to the Credit Agreement, dated December 31, 2015, by and among Unilife Medical Solutions, Inc., ROS Acquisition Offshore LP and the other Creditor Obligors party thereto is incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-k filed January 7, 2016	
10.3	Second Amendment to Royalty Agreement, dated October 13, 2015 by and among Unilife Medical Solutions, Inc. and Royal Opportunities S.À R.L. is incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed October 16, 2015	
10.4	Amended and Restated Promissory Note, dated as of October 13, 2015, for up to \$70,000,000 by Unilife Medical Solutions, Inc. in favor of ROS Acquisition Offshore LP. is incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-K filed October 16, 2015	
10.5	Waiver to Credit Agreement, dated November 6, 2015 by and among Unilife Medical Solutions, Inc. and ROS Acquisition Offshore is incorporated by reference to Exhibit 10.4 of the Company's Quarterly Report on Form 10-Q filed November 9, 2015	
10.6	Fourth Amendment to Employment Agreement, dated October 13, 2015, by and between Unilife Corporation and Alan D. Shortall is incorporated by reference to Exhibit 10.6 of the Company's Quarterly Report on Form 10-Q filed November 9, 2015	
10.7	Fifth Amendment to Employment Agreement, dated October 13, 2015, by and between Unilife Corporation and Ramin Mojdeh, Ph.D. is incorporated by reference to Exhibit 10.7 of the Company's Quarterly Report on Form 10-Q filed November 9, 2015	
10.8	First Amendment to Employment Agreement, dated October 13, 2015, by and between Unilife Corporation and David C. Hastings is incorporated by reference to Exhibit 10.8 of the Company's Quarterly Report on Form 10-Q filed November 9, 2015	
10.9	First Amendment to Employment Agreement, dated October 13, 2015, by and between Unilife Corporation and Dennis P. Pyers is incorporated by reference to Exhibit 10.9 of the Company's Quarterly Report on Form 10-Q filed November 9, 2015	
10.10	Second Amendment to Employment Agreement, dated October 13, 2015, by and between Unilife Corporation and John C. Ryan is incorporated by reference to Exhibit 10.10 of the Company's Quarterly Report on Form 10-Q filed November 9, 2015	
10.11	Stock Purchase Agreement, dated November 9, 2015, by and between the Company and an institutional investor is incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed November 9, 2015	
10.12	Waiver and Consent Agreement, dated November 9, 2015, by and between the Company and Lincoln Park Capital Fund, LLC is incorporated by reference to Exhibit 10.2 of the Company's Current Report on Form 8-K filed November 9, 2015	
10.13	Warrant to Purchase Common Stock, dated November 9, 2015, issued by the Company to Lincoln Park Capital Fund, LLC is incorporated by reference to Exhibit 10.3 of the Company's Current Report on Form 8-k filed November 9, 2015	
10.14	Exclusivity Agreement, dated December 31, 2015, by and between the Company and Amgen Inc. is incorporated by reference to the designated exhibit of the Company's Quarterly Report on Form 10-Q filed February 10, 2016	
10.15	Controlled Equity Offering SM Sales Agreement, dated July 29, 2015, by and between Unilife Corporation and Cantor Fitzgerald & Co. is incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 30, 2015	
10.16	Purchase Agreement, dated as of July 29, 2015, by and between Unilife Corporation and Lincoln Park Capital Fund, LLC is incorporated by reference to Exhibit 10.1 of the Company's Current Report on Form 8-K filed July 30, 2015	

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<u>Exhibit No.</u>	<u>Description of Exhibit</u>	<u>Included Herewith</u>
15	Awareness Letter of Independent Registered Public Accounting Firm	X
31.1	Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer	X
31.2	Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer	X
32.1	Section 1350 Certification of the Chief Executive Officer	X
32.2	Section 1350 Certification of the Chief Financial Officer	X
101.INS*	XBRL Instance Document	X
101.SCH*	XBRL Taxonomy Extension Schema	X
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase	X
101.LAB*	XBRL Taxonomy Extension Label Linkbase	X
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase	X
101.DEF*	XBRL Taxonomy Extension Definition Linkbase	X

* Attached as Exhibits 101 are the following financial statements from Unilife Corporation's Quarterly Report on Form 10-Q for the quarter ended December 31, 2015, formatted in XBRL (eXtensible Business Reporting Language); (i) Unaudited Consolidated Balance Sheets as of December 31, 2015 and June 30, 2015, (ii) Unaudited Consolidated Statement of Operations and Comprehensive Loss for the three and six months ended December 31, 2015 and 2014, (iii) Unaudited Consolidated Statement of Stockholders' Deficit for the six months ended December 31, 2015, (iv) Unaudited Consolidated Statements of Cash Flows for the six months ended December 31, 2015 and 2014, and (v) Notes to Unaudited Consolidated Financial Statements.

SIGNATURES

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

Date: October 21, 2016

UNILIFE CORPORATION

By: /s/ David C. Hastings

David C. Hastings

Senior Vice President, Chief Financial Officer, Chief Accounting Officer
and Treasurer

(Duly Authorized Officer and Principal Financial Officer)

Awareness Letter from Independent Registered Public Accounting Firm

October 21, 2016

Unilife Corporation
York, Pennsylvania

Re: Registration Statements No. 333-197122, 333-173195, 333-164964, 333-178882, 333-186049, 333-193358 and 333-200223

With respect to the subject registration statements, we acknowledge our awareness of the use therein of our report dated February 9, 2016, except for the revisions to the unaudited interim consolidated financial statements discussed in note 2, as to which the date is October 21, 2016.

Pursuant to Rule 436 under the Securities Act of 1933 (the Act), such report is not considered part of a registration statement prepared or certified by an independent registered public accounting firm, or a report prepared or certified by an independent registered public accounting firm within the meaning of Sections 7 and 11 of the Act.

/s/ KPMG LLP

Harrisburg, Pennsylvania

**Certification of Chief Executive Officer pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a),
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, John Ryan, certify that:

1. I have reviewed this Amendment No. 2 to Quarterly Report on Form 10-Q/A of Unilife Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ John Ryan

Name: John Ryan

Title: Chief Executive Officer

Date: October 21, 2016

**Certification of Chief Financial Officer pursuant to
Securities Exchange Act Rules 13a-14(a) and 15d-14(a),
as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, David C. Hastings, certify that:

1. I have reviewed this Amendment No. 2 to Quarterly Report on Form 10-Q/A of Unilife Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting.
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

/s/ David C. Hastings

Name: David C. Hastings

Title: Chief Financial Officer

Date: October 21, 2016

**Certification of Chief Executive Officer pursuant to
18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q/A of Unilife Corporation (the "Company") for the quarterly period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, John Ryan, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ John Ryan

Name: John Ryan

Title: Chief Executive Officer

Date: October 21, 2016

**Certification of Chief Financial Officer pursuant to
18 U.S.C. Section 1350, as adopted pursuant to
Section 906 of the Sarbanes-Oxley Act of 2002**

In connection with the Quarterly Report on Form 10-Q/A of Unilife Corporation (the "Company") for the quarterly period ended December 31, 2015 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, David C. Hastings, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge:

- (1) the Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ David C. Hastings

Name: David C. Hastings

Title: Chief Financial Officer

Date: October 21, 2016