



UPDATE NOTE

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UNILIFE CORPORATION (NASDAQGM: UNIS)

NEW DEVICE OPENS BUSINESS OPPORTUNITIES

Unilife announced that it has created a new drug delivery device that has been selected by a top-tier pharmaceutical company for clinical testing of a biological drug. The prototype, which was provided to the customer in April, will support targeted organ delivery of the therapeutic agent. The clinical trial is expected to begin in the fourth quarter 2011 or first quarter of 2012. The identity of the customer, terms of the initial agreement, and the nature of the device are being kept confidential at this time. But the signing of a supply agreement and shipment of the disposable device are expected to occur shortly.

The new product heralds the success of Unilife's strategy to diversify its portfolio through the development of additional high-value delivery devices for the pharmaceutical industry. The Company's goal is to become a one-stop-shop for delivery technology suitable for drugs of the future. We believe the opportunities will be abundant. Many biological drugs and vaccines have special handling requirements and drug companies will likely seek devices that differentiate their products in the marketplace. Then, too, more drugs will be self-administered and improved delivery devices may facilitate this process.

We reiterate our BUY recommendation and our 12-month target price of \$10.50.

Share Price (6/10/11)	\$4.38
52-Week Price Low / High	\$3.85 - \$7.08
Mkt. Capitalization (issued)	\$279.7 million
Shares Outstanding (issued)	63.85 million
Avg Trading Volume (3 mo.)	212,848
12-month Target Price	\$10.50
Website	www.unilife.com
FY 2011 Loss per share	(\$0.68)
FY 2012 Loss per share	(\$0.49)

12-Month Price Chart



Source: BigCharts.com

Unilife Corporation (NasdaqGM: UNIS) is a medical device company specializing in drug delivery. Its hallmark is a safety syringe technology that provides automatic activation of needle retraction and user-controlled rate of retraction. These features are preferred by the OSHA. The most important product line is Unifill[®] brand of syringes, which have glass barrels and are designed to be prefilled with injectable drugs by pharmaceutical manufacturers. The initial model has a fixed needle for

subcutaneous injections, and syringes with interchangeable needles have been developed for other uses. These products, as well as additional delivery devices under development, will enable Unilife customers to help healthcare providers meet new safety regulations that will go into effect in the European Union in 2013. Other factors that distinguish its products are their ease of use, size, cost savings relative to existing safety syringes and vials, and the underpinning patented technologies.

A NEW DEVICE FOR A NEW CUSTOMER

Unilife announced last week that it has been working with a top-tier pharmaceutical company to provide a disposable drug-delivery device for targeted organ administration of a biological agent that is under development. The initial deal was for a small number of units that were shipped in April for the customer's evaluation. A second agreement, which is expected to be signed shortly, will call for Unilife to provide sufficient devices for a clinical trial that will commence in late 2011 or early 2012.

At this juncture, the Company has not revealed who its customer is or more detailed information about the device. However, the new product is just the first in what Unilife expects will be a series of innovative drug delivery devices that will facilitate the administration of therapies that are currently in the industry's R&D pipeline.

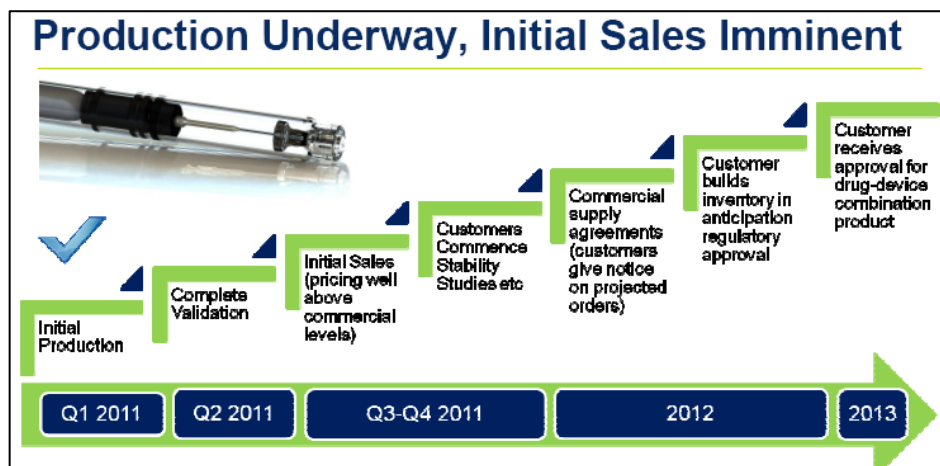
UNILIFE R&D EFFORTS ALIGNED WITH THE RX INDUSTRY'S NEEDS

An important goal for the Company is to diversify its product line to eventually become a one-stop-shop for high-quality, value-added drug delivery devices. The safety technology underpinning the Unifill and Unitract brands of syringes will probably be incorporated into many of the new products, but it won't be the only distinguishing feature, as Unilife has established several product-development teams that will work independently with potential customers to create innovative devices. Demand for new devices is likely to be generated from several sources:

- **Biosimilars:** Innovative devices can differentiate a brand-name drug from a generic/biosimilar product, enabling the branded agent to retain or build market share. In some instances, new devices may enable unique claims that can obstruct generic competition. In all, the industry will lose patent protection on 30 biological drugs with annual sales of \$15 billion by 2015.
- **New Biologicals:** The drug industry has a large number of biological drugs and vaccines under development that will change the make-up of the products sold by 2014. In 2008, such products accounted for approximately 28% of sales, but by 2014, they will comprise roughly 50% of sales. Some biological drugs are viscous in solution, which means that devices capable of handling large volumes will be required. Most of the new products will be injected and some will have to be prepared in solution just before administration. Pharmaceutical companies are seeking devices that will facilitate this process for the healthcare provider or patient.
- **Self-administrated Drugs:** As efforts to stem the growth in healthcare costs accelerate, drugs that the patient can self-administer will have a competitive advantage. Devices that simplify that task and are easily disposed of will most likely be preferred. A variety of devices seem to offer these features, including prefilled syringes, liquid/dry reconstitution injectors, auto-injectors, patch pumps, and injection pens. We would not be surprised to see Unilife commercialize products within most, if not all, of these categories.

NEAR-TERM TIMELINE

Unilife remains on track to extend its unblemished history of meeting internal and partner-established milestones on schedule. As outlined in the following graphic, a number of other events are expected over the next 18 months or so that should transform the Company into a fully operational business and greatly increase its valuation.



Source: Unilife Corporation

The June quarter has nearly ended, and Unilife is well along toward meeting its goal of completing the validation of its production line for regulatory purposes. That will lead to the initial shipments of Unifill syringes to Sanofi on schedule in July. Those syringes will be used for drug stability testing, since every drug-delivery device must be tested for stability before the FDA will approve the combination for sale. (That is not a risky process for Unilife, since all materials in its Unifill syringe that come into contact with the drug are already used in commercially available prefilled syringes that lack safety features.) Nonetheless, the process is time-consuming and somewhat expensive. Accordingly, any drug manufacturer undertaking a stability study is serious about using the device with its product. The initial tests probably will lead to commercial supply agreements with Unilife in the first half of 2012, since time will be required to build inventory of the syringes and the final combination product in anticipation of regulatory approval in 2013. We believe that this means the Company will book its initial sales at the start of fiscal 2012 (starts July 1st) and sustain a low and perhaps uneven level of sales for a few quarters before a steadier, growing stream of business takes hold.

INVESTOR CONSIDERATIONS

Unilife has a market valuation of roughly \$280 million, even though its stock lacks fundamental support. That is not surprising in our view, given the unique characteristics of its proprietary technology and its established relations with Sanofi, the largest user of prefilled syringes in the world. Then, too, the implementation of new regulations requiring safety syringes in the European Union in 2013 and the emergence of new biological drugs over the next three years create fertile ground for the Company's products. Growth-oriented investors should find this scenario to their liking. Just as important, the time is ripe to invest – news about more, novel products and new customers should emerge in the months ahead, and with the initiation of sales, operations should gradually begin to turn profitable.

Based on these imminent events, we have set a 12-month target price of \$10.50. See our report dated May 23rd for a more detailed discussion.

INVESTMENT CONCERNS AND RISKS

For a complete description of risks and uncertainties related to Unilife Corporation's business, see Unilife's Annual Reports, which can be accessed directly from the Company's website, www.unilife.com. Potential risks include:

- **Stock risk and market risk:** There is a limited trading market for the Company's common stock, partly because it trades on both the NasdaqGM and Australian bourses. There can be no assurance that an active and liquid U.S. trading market will develop or, if developed, that it will be sustained, which could limit one's ability to buy or sell the Company's common stock at a desired price. Indeed, the shares may trade at prices on the two exchanges that differ by more than would be determined by foreign exchange rates alone. Investors should also consider technical risks common to many small-cap or micro-cap stock investments, such as small float, risk of dilution, dependence upon key personnel, and the strength of competitors that may be larger and better capitalized.
- **Competitive risk:** The medical device market continues to evolve, and research and development are expected to continue. Other companies are already established players in the needle & syringe market and are actively engaged in the development of new safety devices that may directly or indirectly compete with those being pursued by Unilife. These companies may have substantially greater research and development capabilities, as well as significantly greater marketing, financial, and human resources than Unilife.
- **Products still in development phases:** The Company's ready-to-fill syringes and many other models are still at a pre-commercialization stage. Such products may appear to be promising, but may not reach commercialization for various reasons, including failure to achieve regulatory approvals with customers' drugs, reliability concerns, and/or the inability to be manufactured at a reasonable cost. And even if its products are commercialized, there can be no assurance that they will be accepted, which may prevent the Company from becoming profitable.
- **Funding requirements:** It is difficult to predict Unilife's future capital requirements. The Company may need additional financing to continue funding the development of its products and their production. There is no guarantee that it can secure the desired future capital or, if sufficient capital is secured, that current shareholders will not suffer significant dilution.
- **Regulatory risk:** There is no guarantee that Unilife's products will be approved by the U.S. Food and Drug Administration (FDA) or international regulatory bodies for marketing in the U.S. or abroad.
- **Patent risk:** The medical device industry is one in which patents have not always provided sufficient protection against competition. Moreover, the sector has had sizable patent disputes that have resulted in large settlement awards. There can be no assurance that Unilife's patents will provide sufficient protection against competitors and that patent litigation will not become a financial burden.

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PRICE CHART – 2 Year



Source: Nasdaq.com

Note: UNIS stock began trading in the United States in February 2010 after the company redomiciled from Australia.

Initial Coverage (Australian exchange): 8/19/2009; share price, A\$0.59; rating, BUY; 12-month price target, A\$3.65. Update report: 1/29/2010; share price, A\$1.45; rating, BUY; 12-month price target, A\$2.75. **Update report (NasdaqGM):** 3/31/2010; share price, \$5.93; rating, BUY; 12-month price target, \$15.00; Update report: 3/10/2011, share price, \$4.25; rating, BUY; 12-month price target, \$10.50; 5/20/11; share price: \$5.18; rating, BUY; 12-month price target, \$10.50.

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