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

FORM 10-Q

QUARTERLY REPORT

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

For the quarterly period ended June 30, 2010

Universal Biosensors, Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

98-0424072

(I.R.S. Employer Identification Number)

**Universal Biosensors, Inc.
1 Corporate Avenue,
Rowville, 3178, Victoria
Australia**

(Address of principal executive offices)

Not Applicable
(Zip Code)

Telephone: +61 3 9213 9000

(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 (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ 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 "accelerated filer", "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer ☐ Accelerated Filer ☐ Non-Accelerated Filer ☐ Smaller reporting company ☒
(Do not check if a smaller reporting company)

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date:
157,341,259 shares of Common Stock, U.S.\$0.0001 par value, outstanding as of August 6, 2010.

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
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PART I**Item 1 Financial Statements**

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED BALANCE SHEETS
(Unaudited)

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
	<u>A\$</u>	<u>A\$</u>
ASSETS		
Current assets:		
Cash and cash equivalents	27,164,097	31,291,011
Inventories, net	751,206	305,124
Accrued income	—	118,305
Accounts receivables	944,487	415,397
Prepayments	3,454,538	2,289,149
Other current assets	369,204	364,339
Total current assets	<u>32,683,532</u>	<u>34,783,325</u>
Property, plant and equipment	28,234,246	27,898,099
Less accumulated depreciation	<u>(8,050,620)</u>	<u>(6,597,956)</u>
Property, plant and equipment — net	<u>20,183,626</u>	<u>21,300,143</u>
Total assets	<u><u>52,867,158</u></u>	<u><u>56,083,468</u></u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	431,168	434,207
Accrued expenses	773,018	1,201,893
Financial instruments	8,882	47,412
Deferred income	82,752	559,931
Employee entitlements provision	505,277	421,040
Total current liabilities	<u>1,801,097</u>	<u>2,664,483</u>
Non-current liabilities:		
Asset retirement obligations	1,920,300	1,842,547
Employee entitlements provision	330,151	262,436
Total non-current liabilities	<u>2,250,451</u>	<u>2,104,983</u>
Total liabilities	<u><u>4,051,548</u></u>	<u><u>4,769,466</u></u>
Stockholders' equity:		
Preferred stock, \$0.01 par value. Authorized 1,000,000 shares; issued and outstanding nil in 2010 (2009: nil)		
Common stock, \$0.0001 par value. Authorized 300,000,000 shares; issued and outstanding 157,341,259 shares in 2010 (2009: 157,155,933)	15,734	15,716
Additional paid-in capital	75,652,565	74,566,698
Accumulated deficit	(22,922,688)	(24,353,151)
Current year earnings/(loss)	(3,622,807)	1,430,463
Accumulated other comprehensive income	(307,194)	(345,724)
Total stockholders' equity	<u>48,815,610</u>	<u>51,314,002</u>
Total liabilities and stockholders' equity	<u><u>52,867,158</u></u>	<u><u>56,083,468</u></u>

See notes to consolidated condensed financial statements which are an integral part of these statements

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

	Period from inception (September 14, 2001) to June 30, 2010	Three Months Ended June 30,		Six Months Ended June 30,	
		2010	2009	2010	2009
	A\$	A\$	A\$	A\$	A\$
Revenue					
Revenue from products	\$ 3,017,130	\$ 1,359,584	\$ —	\$ 2,884,397	\$ —
Revenue from services	9,268,737	1,403,779	312,590	3,296,912	1,780,054
Research and development income	14,415,089	—	349,848	—	738,167
Milestone payment	17,722,641	—	—	—	—
Total revenue	44,423,597	2,763,363	662,438	6,181,309	2,518,221
Operating costs & expenses					
Cost of goods sold (1)	3,933,314	1,936,716	—	3,475,152	—
Cost of services	3,784,249	247,190	47,285	493,254	62,120
Research and development (2 and 3)	47,167,869	1,799,551	4,104,205	3,353,778	7,337,840
General and administrative (4)	23,256,926	1,788,984	1,395,286	3,258,593	2,585,878
Total operating costs & expenses	78,142,358	5,772,441	5,546,776	10,580,777	9,985,838
Profit/(loss) from operations	(33,718,761)	(3,009,078)	(4,884,338)	(4,399,468)	(7,467,617)
Other income/(expense)					
Interest income	6,041,460	327,949	193,184	632,968	460,258
Interest expense	(19,125)	—	(3,614)	—	(7,227)
Fee income	1,131,222	—	—	—	—
Other	37,503	153,984	52,265	143,693	18,487
Total other income/(expense)	7,191,060	481,933	241,835	776,661	471,518
Net profit/(loss) before tax	(26,527,701)	(2,527,145)	(4,642,503)	(3,622,807)	(6,996,099)
Income tax benefit/(expense)	(17,794)	—	—	—	—
Net profit/(loss)	<u>\$(26,545,495)</u>	<u>\$ (2,527,145)</u>	<u>\$ (4,642,503)</u>	<u>\$ (3,622,807)</u>	<u>\$ (6,996,099)</u>
Basic and diluted net loss per share	\$ (0.31)	\$ (0.02)	\$ (0.03)	\$ (0.02)	\$ (0.04)
Average weighted number of shares used as denominator in calculating basic and diluted net loss per share	85,267,384	157,307,199	156,976,936	157,268,327	156,976,936

Notes:

1	Includes non-cash compensation expense (cost of goods sold)	\$ 106,946	\$ 45,051	\$ —	\$ 85,739	\$ —
2	Net of research grant income in these amounts	\$2,366,063	\$ —	\$ —	\$ —	\$ —
3	Includes non-cash compensation expense (research and development)	\$2,320,537	\$272,343	\$81,024	\$518,311	\$177,021
4	Includes non-cash compensation expense (general and administrative)	\$1,646,387	\$219,029	\$35,506	\$391,159	\$ 79,957

See notes to consolidated condensed financial statements which are an integral part of these statements

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

	Period from Inception (September 14, 2001) to June 30, 2010 A\$	Six Months Ended June 30, 2010 A\$	2009 A\$
Cash flows from operating activities:			
Net loss	(26,545,495)	(3,622,807)	(6,996,099)
Adjustments to reconcile net loss to net cash used in operating activities:			
Net exchange difference	1,102,572	—	—
Depreciation and impairment of plant & equipment	8,585,232	1,452,664	1,414,828
Share based payments expense	4,073,870	995,209	256,978
Loss on fixed assets disposal	211,343	—	55,821
Change in assets and liabilities:			
Inventory	(751,206)	(446,082)	—
Accounts receivables	(2,059,968)	(1,006,270)	28,198
Prepaid expenses and other current assets	(5,873)	(338,932)	(195,627)
Accrued income	9,450	118,305	—
Deferred revenue	290,904	—	1,307,795
Borrowings	—	—	—
Employee entitlements	835,428	151,952	84,418
Accounts payable and accrued expenses	1,540,689	(335,232)	(179,361)
Net cash provided by/(used in) operating activities	(12,713,054)	(3,031,193)	(4,223,049)
Cash flows from investing activities:			
Instalment payments to acquire plant and equipment	(6,593,364)	(831,321)	(1,530,005)
Purchases of property, plant and equipment	(21,943,173)	(355,076)	(416,847)
Net cash used in investing activities	(28,536,537)	(1,186,397)	(1,946,852)
Cash flows from financing activities:			
Gross proceeds from share issue	73,517,472	—	—
Transaction costs on share issue	(4,099,870)	—	—
Proceeds from borrowings	479,673	—	479,673
Repayment of borrowings	(479,673)	—	(359,755)
Proceeds from stock options exercised	353,719	90,676	—
Net cash provided by/(used in) financing activities	69,771,321	90,676	119,918
Net increase/(decrease) in cash and cash equivalents	28,521,730	(4,126,914)	(6,049,983)
Cash and cash equivalent at beginning of period	—	31,291,011	28,334,864
Effect of exchange rate fluctuations on the balances of cash held in foreign currencies	(1,357,633)	—	—
Cash and cash equivalents at end of period	27,164,097	27,164,097	22,284,881

See notes to consolidated condensed financial statements which are an integral part of these statements

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)
CONSOLIDATED CONDENSED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY AND
COMPREHENSIVE INCOME
(Unaudited)

	Preference Shares		Ordinary shares		Additional Paid-	Accumulated	Other	Total
	Shares	Amount	Shares	Amount	in Capital	Deficit	Comprehensive	Stockholders'
		A\$		A\$	A\$	A\$	A\$	Equity
								A\$
Balance at								
September 14,								
2001 (1)	—	—	—	—	—	—	—	—
Changes during the								
period from								
September 14,								
2001 through								
December 31,								
2008								
Preference and								
ordinary shares								
issued for cash	40,386,962	16,701,436	116,071,631	11,607	54,474,378	—	—	71,187,421
Conversion of								
preference shares								
to ordinary shares	(40,386,962)	(16,701,436)	40,386,962	4,039	16,697,397	—	—	—
Transaction costs on								
shares issued	—	—	—	—	(16,663)	—	—	(16,663)
Comprehensive								
Income								
Foreign currency								
translation								
reserve, net of								
tax	—	—	—	—	—	—	(298,312)	(298,312)
Net loss for the								
period	—	—	—	—	—	(24,353,151)	—	(24,353,151)
Total								
comprehensive								
income								(24,651,463)
Exercise of stock								
options issued to								
employees	—	—	518,343	52	183,993	—	—	184,045
Stock option expense	—	—	—	—	1,999,890	—	—	1,999,890
Balances at								
December 31,								
2008	—	—	156,976,936	15,698	73,338,995	(24,353,151)	(298,312)	48,703,230
Comprehensive								
Income								
Loss on								
derivatives and								
hedges, net of								
tax	—	—	—	—	—	—	(63,396)	(63,396)
Net loss for the								
period	—	—	—	—	—	(6,996,099)	—	(6,996,099)
Total								
comprehensive								
income								(7,059,495)
Stock option expense	—	—	—	—	256,978	—	—	256,978
Balances at June 30,								
2009	—	—	156,976,936	15,698	73,595,973	(31,349,250)	(361,708)	41,900,713
Balances at								
December 31,								
2009	—	—	157,155,933	15,716	74,566,698	(22,922,688)	(345,724)	51,314,002
Changes during the								
six months period								
ended June 30,								
2010								
Comprehensive								
Income								

Net loss for the period	—	—	—	—	—	(3,622,807)	—	(3,622,807)
Loss on derivatives and hedges, net of tax	—	—	—	—	—	—	38,530	<u>38,530</u>
Total comprehensive income								<u>(3,584,277)</u>
Exercise of stock options issued to employees	—	—	184,745	18	89,659	—	—	89,677
Shares issued to employees	—	—	581	—	999	—	—	999
Stock option expense	—	—	—	—	<u>995,209</u>	—	—	<u>995,209</u>
Balances at June 30, 2010	<u>—</u>	<u>—</u>	<u>157,341,259</u>	<u>15,734</u>	<u>75,652,565</u>	<u>(26,545,495)</u>	<u>(307,194)</u>	<u>48,815,610</u>

(1) Incorporation date

See notes to consolidated condensed financial statements which are an integral part of these statements

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Basis of Presentation and Summary of Significant Accounting Policies

Organization of the Company

Universal Biosensors, Inc. (the “Company”) was incorporated on September 14, 2001 in the United States, and its wholly owned subsidiary and operating vehicle, Universal Biosensors Pty Ltd, was incorporated in Australia on September 21, 2001. Collectively, the Company and its wholly owned subsidiary Universal Biosensors Pty Ltd are referred to as “Universal Biosensors” or the “Group”. The Company’s shares of common stock in the form of CHESS Depositary Interests (“CDIs”) were quoted on the Australian Securities Exchange (“ASX”) on December 13, 2006 following the initial public offering in Australia of the Company’s shares of common stock. Our securities are not currently traded on any other public market.

The Company is a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. The blood test devices we are developing comprise a novel disposable test strip and a reusable meter. These simple to use portable test devices require a finger prick of blood and are designed to be used by the patient (at the “point-of-care”) to provide accurate and quick results to enable new treatment or an existing treatment to be immediately reviewed.

Universal Biosensors has rights to an extensive patent portfolio comprising certain patent applications owned by its wholly owned Australian subsidiary, Universal Biosensors Pty Ltd, and a large number of patents and patent applications licensed to us by LifeScan, Inc. (“LifeScan”), an affiliate of Johnson & Johnson Corporation.

Universal Biosensors has developed a blood glucose test (used in the management of diabetes) with LifeScan which was launched by LifeScan in The Netherlands in January 2010 under the trade name “One Touch Verio”. Subject to mutually agreed terms, we intend to develop other tests in the field of diabetes and blood glucose management.

On October 29, 2007 Universal Biosensors entered into a Master Services and Supply Agreement which contains the terms pursuant to which Universal Biosensors Pty Ltd would provide certain services in the field of blood glucose monitoring to LifeScan and would generally act as a non-exclusive manufacturer of an original version of the initial blood glucose test strips we developed for LifeScan (“Master Services and Supply Agreement”). On December 11, 2008, Universal Biosensors entered into an additional services addendum to provide manufacturing process support to assist LifeScan to establish LifeScan’s own manufacturing line for blood glucose test strips at a location of its choosing. On December 11, 2008, the Master Services and Supply Agreement was amended to reflect certain definitional matters in the document. On May 15, 2009, the agreement was amended and restated to incorporate the amendments made in December 2008 and to reflect changes resulting from a change to the blood glucose test strip. The Master Services and Supply Agreement is structured as an umbrella agreement which enables LifeScan and the Company to enter into a series of additional arrangements for the supply by the Company of additional services and products in the field of blood glucose monitoring. The Company commenced manufacture of the initial blood glucose test strips in its facility in Corporate Avenue, Rowville, Melbourne, in December 2009.

Additionally, the Group will continue to provide research and development services to LifeScan in the area of diabetes management to extend and develop the glucose sensor technology owned by LifeScan under a development and research agreement (“Development and Research Agreement”).

The Company uses its technology base to develop other electrochemical-cell based tests. The Company does not currently intend to establish its own sales and marketing force to commercialize any of the non-blood glucose products which it develops. Rather, the Company’s efforts are focused on establishing collaborative partnerships for the tests derived from the platform. The Company has engaged and in the future plans to engage third party contractors to assist the Company in its partnering efforts. The Company is developing a C-reactive protein test on its dry immunoassay platform to assist in the diagnosis and management of inflammatory conditions. The Company is also developing a D-dimer test for detection and monitoring of several conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). The Company has also undertaken development work on a prothrombin time

UNIVERSAL BIOSENSORS, INC.
(A Development Stage Enterprise)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

test for monitoring the therapeutic range of the anticoagulant, warfarin, based on measuring activity of the enzyme thrombin. The Company has successfully taken the prothrombin time test to a point where the Company considers it has significantly reduced the risk of technical failure. The Company does not currently propose to complete the remaining development steps for this test until the path to commercialization for this product is assured and the partnering efforts for the test have been successful.

All business operations and research and development activities are undertaken in Melbourne, Australia by the Company's wholly owned subsidiary, Universal Biosensors Pty Ltd, under the Master Services and Supply Agreement and a research and development sub-contract and sub-license agreement between Universal Biosensors Pty Ltd and the Company.

The Group is considered a development stage enterprise as it is not generating significant revenue or positive cash flows from its commercial manufacturing operations.

Interim Financial Statements

The accompanying unaudited consolidated condensed financial statements have been prepared in accordance with accounting principles generally accepted in the United States ("U.S. GAAP") and with the instructions to Form 10-Q and Article 10 of Regulation S-X for interim financial information. Accordingly, they do not include all of the information and footnotes required by U.S. GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2010 are not necessarily indicative of the results that may be expected for the year ending December 31, 2010. For further information, refer to the financial statements and footnotes thereto as of and for the year ended December 31, 2009, included in the Form 10-K of Universal Biosensors, Inc.

The year-end condensed balance sheet data as at December 31, 2009 was derived from audited financial statements, but does not include all disclosures required by U.S. GAAP.

Basis of Presentation

These financial statements are presented in accordance with U.S. GAAP. All amounts are expressed in Australian dollars ("AUD" or "A\$") unless otherwise stated.

The Company's financial statements have been prepared assuming the Company will continue as a going concern.

Principles of Consolidation

The consolidated financial statements include the financial statements of the Company and its wholly owned subsidiary Universal Biosensors Pty Ltd. All intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

The preparation of the consolidated financial statements requires management of the Company to make a number of estimates and assumptions relating to the reported amount of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the period. Significant items subject to such estimates and assumptions include the carrying amount of inventory and property, plant and equipment, deferred income taxes, asset retirement obligations and obligations related to employee benefits. Actual results could differ from those estimates.

UNIVERSAL BIOSENSORS, INC.
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NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Cash & Cash Equivalents

The Company considers all highly liquid investments purchased with an initial maturity of three months or less to be cash equivalents. For cash and cash equivalents, the carrying amount approximates fair value due to the short maturity of those instruments.

Short-Term Investments (Held-to-maturity)

Short-term investments constitute all highly liquid investments with term to maturity from three months to twelve months. The carrying amount of short-term investments is equivalent to its fair value.

Concentration of Credit Risk and Other Risks and Uncertainties

Cash and cash equivalents consists of financial instruments that potentially subject the Company to concentration of credit risk to the extent of the amount recorded on the balance sheet. The Company's cash and cash equivalents are invested with two of Australia's four largest banks. The Company is exposed to credit risk in the event of default by the banks holding the cash or cash equivalents to the extent of the amount recorded on the balance sheets. The Company has not experienced any losses on its deposits of cash and cash equivalents.

Product candidates developed by the Company may require approvals or clearances from the U.S. Food and Drug Administration or other international regulatory agencies prior to commercialized sales. There can be no assurance that the Company's product candidates will receive any of the required approvals or clearances. If the Company was denied approval or clearance of such approval was delayed, it may have a material adverse impact on the Company.

Derivative Instruments and Hedging Activities

Derivative financial instruments

The Company uses derivative financial instruments to hedge its exposure to foreign exchange arising from operating, investing and financing activities. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

Derivative financial instruments are recognized initially at fair value. Subsequent to initial recognition, derivative financial instruments are stated at fair value. The gain or loss on remeasurement to fair value is recognized immediately in the income statement. However, where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the item being hedged.

Cash flow hedges

Exposure to foreign exchange risks arises in the normal course of the Company's business and it is the Company's policy to use forward exchange contracts to hedge anticipated sales and purchases in foreign currencies. The amount of forward cover taken is in accordance with approved policy and internal forecasts.

Where a derivative financial instrument is designated as a hedge of the variability in cash flows of a recognized asset or liability, or a highly probable forecast transaction, the effective part of any gain or loss on the derivative financial instrument is recognized directly in equity. When the forecast transaction subsequently results in the recognition of a non-financial asset or non-financial liability, the associated cumulative gain or loss is removed from equity and included in the initial cost or other carrying amount of the non-financial asset or liability. If a hedge of a forecast transaction subsequently results in the recognition of a financial asset or a financial liability, then the associated gains and losses that were recognized directly in equity are reclassified into the income statement in the same period or periods during which the asset acquired or liability assumed affects the income statement.

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For cash flow hedges, other than those covered by the preceding statement, the associated cumulative gain or loss is removed from equity and recognized in the income statement in the same period or periods during which the hedged forecast transaction affects the income statement and on the same line item as that hedged forecast transaction. The ineffective part of any gain or loss is recognized immediately in the income statement.

When a hedging instrument expires or is sold, terminated or exercised, or the Company revokes designation of the hedge relationship, but the hedged forecast transaction is still probable to occur, the cumulative gain or loss at that point remains in equity and is recognized in accordance with the above policy when the transaction occurs. If the hedged transaction is no longer expected to take place, then the cumulative unrealized gain or loss recognized in equity is recognized immediately in the income statement.

Inventory

Inventories are stated at the lower of cost or market value. Inventories are principally determined under the average cost method.

Receivables

Trade accounts receivables are recorded at the invoiced amount and do not bear interest. The allowance for doubtful accounts is the best estimate of the amount of probable credit losses in the existing accounts receivable. The allowance is determined based on a review of individual accounts for collectibility, generally focusing on those accounts that are past due. The current year expense to adjust the allowance for doubtful accounts, if any, is recorded within general and administrative expenses in the consolidated statements of operations. Account balances are charged against the allowance when it is probable the receivable will not be recovered.

Property, Plant and Equipment

Property, plant and equipment are recorded at acquisition cost, less accumulated depreciation.

Depreciation on plant and equipment is calculated using the straight-line method over the estimated useful lives of the assets. The estimated useful life of machinery and equipment is 3 to 10 years. Leasehold improvements are amortized on the straight-line method over the shorter of the remaining lease term or estimated useful life of the asset. Maintenance and repairs are charged to operations as incurred and include minor corrections and normal services and do not include items of capital nature.

	<u>June 30, 2010</u>	<u>December 31, 2009</u>
	<u>A\$</u>	<u>A\$</u>
Plant and equipment	14,650,169	13,271,715
Leasehold improvements	8,357,853	8,328,270
Capital work in process	5,226,224	6,298,114
	28,234,246	27,898,099
Accumulated depreciation	(8,050,620)	(6,597,956)
Property, plant & equipment, net	<u>20,183,626</u>	<u>21,300,143</u>

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(A Development Stage Enterprise)

NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

(Unaudited)

Capital work in process relates to assets under construction and is comprised primarily of specialized manufacturing equipment. Legal right to the assets under construction rests with the Company. The amounts capitalized for capital work in process represent the percentage of expenditure that has been completed, and once the assets are placed into service the Company begins depreciating the respective assets. The accumulated amortization of capitalized leasehold improvements for the six month period ended June 30, 2010 and for fiscal year ended December 31, 2009 was A\$3,427,058 and A\$2,770,434, respectively.

The Company receives Victorian government grant monies under a grant agreement to support the establishment of a medical diagnostic manufacturing facility in Victoria through the purchase of plant and equipment. Plant and equipment is presented net of the government grant of A\$410,000 at June 30, 2010 and December 31, 2009. The grant monies are recognized against the acquisition costs of the related plant and equipment as and when the related assets are purchased. Grant monies received in advance of the relevant expenditure are treated as deferred income and included in "Current Liabilities" on the balance sheet as the Company does not control the monies until the relevant expenditure has been incurred. Grants due to the Company under the grant agreement are recorded as "Currents Assets" on the balance sheet.

Depreciation expense was \$8,585,232 for the period from inception to June 30, 2010 and \$727,264 and \$696,958 for the three months ended June 30, 2010 and 2009, respectively and \$1,452,664 and \$1,414,828 for the six months ended June 30, 2010 and 2009, respectively.

The movement in accumulated depreciation is agreed to depreciation expense as follows:

	Six months ended June 30, 2010	Year ended December 31, 2009
	A\$	A\$
Movement in accumulated depreciation	1,452,664	2,830,499
Accumulated depreciation of fixed assets disposed	—	20,786
Depreciation expense	<u>1,452,664</u>	<u>2,851,285</u>

Research and Development

Research and development expenses consist of costs incurred to further the Group's research and development activities and include salaries and related employee benefits, costs associated with clinical trial and preclinical development, regulatory activities, research-related overhead expenses, costs associated with the manufacture of clinical trial material, costs associated with developing a commercial manufacturing process, costs for consultants and related contract research, facility costs and depreciation. Research and development costs are expensed as incurred.

The Group receives Australian Commonwealth government grant funding under an R&D Start Grant Agreement as compensation for expenses incurred in respect of certain research activities into dry chemistry immunosensors. Such grants reduce the related research and development expenses as and when the relevant research expenses are incurred. Grants received in advance of incurring the relevant expenditure are treated as deferred research grants and included in "Current Liabilities" on the balance sheet as the Group has not earned these amounts until the relevant expenditure has been incurred. Grants due to the Group under research agreements are included in "Current Assets" as accrued income on the balance sheet.

Research and development expenses for the period from inception to June 30, 2010 and for the three months ended June 30, 2010 and 2009 and for the six months ended June 30, 2010 and 2009 are as follows:

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	Period from inception to June 30, 2010	Three months ended June 30,		Six months ended June 30,	
		2010	2009	2010	2009
	A\$	A\$	A\$	A\$	A\$
Research and development expenses	49,533,932	1,799,551	4,104,205	3,353,778	7,337,840
Research grants received recognized against related research and development expenses	(2,366,063)	—	—	—	—
Research and development expenses as reported	<u>47,167,869</u>	<u>1,799,551</u>	<u>4,104,205</u>	<u>3,353,778</u>	<u>7,337,840</u>

Income Taxes

The Company applies ASC 740 -Income Taxes (formerly Statement of Financial Accounting Standards No. 109 – Accounting for Income Taxes) which establishes financial accounting and reporting standards for the effects of income taxes that result from a company's activities during the current and preceding years. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

Where it is more likely than not that some portion or all of the deferred tax assets will not be realized the deferred tax assets are reduced by a valuation allowance. The valuation allowance is sufficient to reduce the deferred tax assets to the amount that is more likely than not to be realized. At present there is a full valuation allowance recognized.

The Company adopted ASC 740 (formerly FASB Interpretation FIN No. 48 — Accounting for Uncertainty in Income Taxes) effective January 1, 2007 which has not had a material impact on the Company's consolidated financial statements.

We are subject to income taxes in the United States and Australia. U.S. federal income tax returns up to the 2008 financial year have been lodged. Internationally, consolidated income tax returns up to the 2009 financial year have been lodged.

Asset Retirement Obligations

Asset retirement obligations ("ARO") are legal obligations associated with the retirement and removal of long-lived assets. ASC 410 – Asset Retirement and Environmental Obligations (formerly SFAS No. 143 — Accounting for Asset Retirement Obligations) requires entities to record the fair value of a liability for an asset retirement obligation when it is incurred. When the liability is initially recorded, the Company capitalizes the cost by increasing the carrying amounts of the related property, plant and equipment. Over time, the liability increases for the change in its present value, while the capitalized cost depreciates over the useful life of the asset. The Company derecognizes ARO liabilities when the related obligations are settled.

The ARO is in relation to our premises wherein in accordance with the terms of the lease, the lessee has to restore part of the building upon vacating the premises.

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Our overall ARO changed as follows:

	Six months ended June 30, 2010	Year ended December 31, 2009
	A\$	A\$
Opening balance	1,842,547	1,699,133
Accretion expense	77,753	143,414
Ending balance	<u>1,920,300</u>	<u>1,842,547</u>

Fair Value of Financial Instruments

The carrying value of all current assets and current liabilities approximates fair value because of their short-term nature. The estimated fair value of all other amounts has been determined by using available market information and appropriate valuation methodologies.

Impairment of Long-Lived Assets

The Company reviews its capital assets, including patents and licenses, for impairment whenever events or changes in business circumstances indicate that the carrying amount of the assets may not be fully recoverable. In performing the review, the Company estimates undiscounted cash flows from products under development that are covered by these patents and licenses. An impairment loss would be recognized when estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than the carrying amount of the asset. If the evaluation indicates that the carrying value of an asset is not recoverable from its undiscounted cash flows, an impairment loss is measured by comparing the carrying value of the asset to its fair value, based on discounted cash flows.

Australian Goods and Services Tax (GST)

Revenues, expenses and assets are recognized net of the amount of associated GST, unless the GST incurred is not recoverable from the taxation authority. In this case it is recognized as part of the cost of acquisition of the asset or as part of the expense. Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the taxation authority is included with other receivables or payables in the balance sheet. Cash flows are presented on a gross basis.

Revenue Recognition

Revenue from products and services and milestone payment

The revenue from products and the milestone payment are part of an arrangement with multiple deliverables. On October 29, 2007 Universal Biosensors entered into a Master Services and Supply Agreement which contains the terms pursuant to which Universal Biosensors Pty Ltd would provide certain services in the field of blood glucose monitoring to LifeScan and would generally act as a non-exclusive manufacturer of an original version of the initial blood glucose test strips we developed for LifeScan. On May 15, 2009, the agreement was amended and restated to incorporate certain amendments made in December 2008 and to reflect a change to the blood glucose test strip. The Master Services and Supply Agreement is structured as an umbrella agreement which enables LifeScan and us to enter into a series of additional arrangements for the supply by us of additional services and products in the field of blood glucose monitoring.

The Master Services and Supply Agreement may be terminated as a result of a party defaulting on its material obligations, a party becoming insolvent, at LifeScan's option after paying a lump sum service fee, or as a result of other factors detailed in the Master Services and Supply Agreement.

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The deliverables under the arrangement described above are as follows:

- milestone payment — the Company received a milestone payment of A\$17,722,641 in December 2009 triggered by the first grant to LifeScan of regulatory clearance to sell the blood glucose product;
- contract manufacturing — one of two pricing methodologies will apply depending on whether the Company is manufacturing above or below a specified quantity of blood glucose tests strips in a quarter. As we produced less than the specified quantity of test strips in the June 2010 quarter, we are considered to be in the “interim costing period”. In the interim costing period, the Company is establishing its commercial scale manufacturing and therefore is not expected to generate any profit through contract manufacturing, but is expected to recover most of its glucose manufacturing costs. As volumes increase beyond the specified quantity of blood glucose test strips sold per quarter, the interim costing period will cease to apply and a different pricing methodology will apply, at which time we expect to be profitable in the sale of blood glucose test strips; and
- product enhancement — a service fee based on the number of strips sold by LifeScan is payable to us as an ongoing reward for our efforts to enhance the product.

Milestone payment is considered a separate unit of accounting as it has stand alone value to LifeScan on the basis that subsequent to receiving regulatory approval to market this product, LifeScan can manufacture and sell the product on an ongoing basis without involving us. There are no other activities related to this deliverable and consideration is contingent upon regulatory approval. The best estimate of selling price is commensurate with the efforts expended over a number of years plus a reasonable margin to assist LifeScan to achieve the agreed deliverable.

Contract manufacturing of the strip by us is considered a separate unit of accounting as it has stand alone value to LifeScan as these will be marketed by LifeScan to its customers. We generally act only as a non-exclusive manufacturer of the blood glucose test strips we developed for LifeScan. There are no general rights of return of the delivered item. There are no other activities related to this deliverable. Consideration is contingent upon receiving firm purchase orders from LifeScan. The best estimate of selling price for contract manufacturing and ongoing efforts to enhance the product has been based on expected costs plus a reasonable margin at normalized volumes.

The ongoing efforts to enhance the product is considered a separate unit of accounting as it has stand alone value to LifeScan as it increases the marketability of the product. There are no general rights of return of the delivered item. There are no other activities related to this deliverable. Consideration is contingent upon the sale of the strips by LifeScan. The best estimate of selling price for this deliverable is based on the expected efforts required to achieve this deliverable plus a reasonable margin.

All consideration within the contract is contingent. The remaining undelivered items are not priced at a significant incremental discount to the delivered items. Revenue for each deliverable will be recognized as each contingency is met and the consideration becomes fixed and determinable. Milestone payment is considered to be a substantive payment and the entire amount has been recognized as revenue when the regulatory approval was received. The regulatory approval to market the initial blood glucose product was received on November 4, 2009. Revenue for contract manufacturing is recognized in accordance with generally accepted accounting principles as outlined in ASC 605-10-S99 (formerly Staff Accounting Bulletin No. 104 — Revenue Recognition), which requires that four basic criteria be met before revenue can be recognized: (i) persuasive evidence of an arrangement exists; (ii) the price is fixed or determinable; (iii) collectability is reasonably assured; and (iv) product delivery has occurred or services have been rendered. Revenue for ongoing efforts to enhance the product is also recognized in accordance with ASC 605-10-S99 when the final product is sold by LifeScan.

Management has concluded that the core operations of the Company are expected to be the research and development activities, commercial manufacture of approved medical or testing devices and the provision of services such as those specified under the Master Services and Supply Agreement including contract research work. The Company’s ultimate goal is to utilize the underlying technology and skill base for the development of a marketable product that the Company will manufacture. The Company considers the income received from milestone payment, contract manufacturing and the ongoing efforts to enhance the product indicative of its core operating activities or revenue producing goals of the Company, and as such have accounted for this income as “Net sales and gross revenues” per Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements and SEC Regulation S-X Article 5-03.

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We perform other services for LifeScan based on their requirements. There are different arrangements for each service being provided. Revenue recognition principles are assessed for each new contractual arrangement and the appropriate accounting is determined for each service. Revenues received in advance of performing the services are treated as deferred income and included in liabilities on the balance sheet as the Group has not earned these amounts until the relevant services have been performed. We recognize revenue from these services, other than as already detailed above, on the following basis:

(1) as we perform the services

Under the terms of our arrangement with LifeScan, we provide certain services relating to the blood glucose field. In accordance with ASC 605 – Revenue Recognition (formerly Emerging Issues Task Force (“EITF”) Issue 99-19), revenue has been recognized on a gross basis as the Company has earned revenue from the provision of services. Other factors which management considered, which support the gross basis of revenue recognition are as follows:

- the Company was responsible for providing the service and was also the primary obligor with respect to purchasing goods and services from third party suppliers which in turn were used to provide services to LifeScan;
- the Company had unmitigated general inventory risk;
- the Company had credit risk; and
- pricing was not fixed but determined by the level of activity.

The transaction with LifeScan satisfies the revenue recognition criteria outlined in ASC 605 (formerly Staff Accounting Bulletin 101/104). The principles of revenue recognition in ASC 605 have all been satisfied; services were performed by the Company which were supported by purchase orders issued by LifeScan on a regular basis, collection was assured, delivery of the services had occurred and the amount was objectively determined.

(2) on a proportional performance basis where revenues is related to costs incurred in providing the services required under the contract

The Company has been providing services to LifeScan to enable LifeScan to establish its own manufacturing line for the blood glucose sensor strips. The proportional performance method has been used to recognize revenue. We believe this method is appropriate as the contract amount was determined prior to the commencement of the service, LifeScan receives value as the services are performed and LifeScan need not re-perform the services that it has already received from the Company should the service arrangement be terminated.

(3) ratably over the period to which it relates

We provide contract research services to LifeScan. Under the arrangement, the contract research revenue is fixed and non-refundable. Revenue is recognized ratably over the period to which it relates as the funding is not matched to a specific expenditure but is linked to a specified period of research. Funding for the contract research services is determined pursuant to the Development and Research Agreement.

Research and development income

On April 1, 2002, the Company and LifeScan entered into a Development and Research Agreement pursuant to which the Company agreed to undertake contract research and development for LifeScan in the area of diabetes management to extend and develop the glucose sensor technology owned by LifeScan. The research and development activities are supervised by a steering committee comprised of representatives from both the Company and LifeScan. In consideration of us undertaking the research and development activities, LifeScan makes quarterly payments to the Company. The Development and Research Agreement automatically renews for successive one year periods unless either LifeScan or the Company gives written notice of termination not less than nine months prior to the end of the relevant one year period (in

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which case the agreement terminates at the end of the relevant one year period), or the Development and Research Agreement is otherwise terminated in accordance with its terms. LifeScan owns all intellectual property developed by the Group under the Development and Research Agreement and the Group receives a license to such intellectual property outside of the LifeScan Field.

The Development and Research Agreement provides details of the amount to be charged to LifeScan each year for the provision of research and development services. Income is recognized ratably over the period to which it relates and when the amount of the payment can be reliably measured and collectibility is reasonably assured. For fiscal 2009, LifeScan paid the Company A\$1,337,125 under the Development and Research Agreement. Income received under the Development and Research Agreement for 2010 is recorded under the caption "Revenue from services". In subsequent years, the steering committee will recommend the level of funding consistent with LifeScan's requirements.

The income derived from the Development and Research Agreement is recognized over the period in which the agreed upon research services are completed. The Company recognizes income for accounting purposes ratably over the annual grant period. Under the Development and Research Agreement, the Company is not matching the income to a specific expenditure but instead to a specified period of research. The annual research and development income received from LifeScan is agreed upon with LifeScan from time to time and is subject to the Company continuing its research and development activities in the blood glucose area, the provision of quarterly reports and other obligations under the Development and Research Agreement. The Company has and continues to satisfy the requirements of the Development and Research Agreement.

Income recognized pursuant to the Development and Research Agreement has all been received in the financial years stated. No upfront payments have been received from LifeScan. There are no claw backs or repayment obligations relating to the Development and Research Agreement.

Fee Income

Pursuant to the agreement with LifeScan, consideration of A\$1,131,222 was paid in 2008 by LifeScan in consideration of the grant of rights by us. The grant of rights to LifeScan included a detailed written description of the Company's process for the manufacture of the initial blood glucose product, including all underlying know-how relevant to the process. Whilst the non-refundable fee is part of an arrangement with multiple deliverables, this fee and the deliverable associated with it was considered a separate unit of accounting. There are no other activities related to this deliverable and there is objective and reliable evidence of the fair value of the undelivered items. The fair value of the rights as determined by management was based on estimated market value of labour hours consumed in writing up the documents relating to the rights. There are no general rights of return of the delivered items. These rights were internally generated and were carried at zero value within our financial statements. The rights were transferred and the consideration received in January 2008 at which time the service requirements (granting of the rights) had been fully satisfied.

The grant of these rights is considered to be a discrete earnings event as they are not linked in any way to the other deliverables in the arrangement and there is a risk that the other deliverables may not be achieved. The other deliverables in the arrangement are primarily related to manufacturing and the Company's ability to manufacture which can only occur once regulatory approval is received to market the product. Regulatory approval to market the product was only received in November 2009 and up until that date there was a risk that regulatory approval would not be obtained. Under the arrangement we have with LifeScan, they have the option of terminating the arrangement, which includes the rights for us to manufacture the product. There was no such risk involved in fulfilling our service requirements for the grant of rights as the service requirements were completed and fully satisfied when the consideration was received at which point the rights were transferred to LifeScan. These rights have value to LifeScan as they are able to use this information to build their own manufacturing capability.

Management has concluded that the core operations of the Company in the short term are expected to be research and development activities and the commercial manufacture of approved medical or testing devices and the provision of

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services such as those specified under the Master Services and Supply Agreement. The Company's ultimate goal is to utilize the underlying technology and skill base for the development of other marketable products that the Company will manufacture. The Company considers the income received for the grant of rights is not indicative of its core operating activities or revenue producing goals of the Company, and as such have accounted for this income as "non-operating income" per Statement of Financial Accounting Concepts No. 6, Elements of Financial Statements and SEC Regulation S-X Article 5-03.

Interest revenue

Interest revenue is recognized as it accrues, taking into account the effective yield on the financial asset.

Foreign Currency

Functional and reporting currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Company and Universal Biosensors Pty Ltd is AUD for all years presented.

The consolidated financial statements are presented using a reporting currency of AUD. Effective October 2008, the Company changed its reporting currency from U.S. Dollars ("USD") to AUD. Prior to October 2008, the Company reported its consolidated balance sheet, statement of operations and stockholder's equity and cash flows in USD. The related statements and corresponding notes for and prior to September 30, 2008 have been revised to reflect AUD as the reporting currency for comparison to the financial results for the year ended December 31, 2008. The change in reporting currency is to better reflect the Company's performance and to improve investor's ability to compare the Company's financial results.

The functional currency of the Company for financial years up to December 31, 2005 was determined by management to be USD. This was based on the facts that the denomination of a significant proportion of transactions and the major source of finance were in USD.

In 2006, the Company significantly expanded its Australian based research activities. At this time, all of the Company's directors became residents in Australia. Currently, with the exception of one director, all the other directors are Australian residents. Most of the Company's expenditure on research and development is Australian dollar denominated. It also began planning for and successfully accomplished a capital raising in Australian dollars and listed on the Australian Securities Exchange. The majority of cash and other monetary assets now held by the Company are denominated in Australian dollars.

Due to these changes in circumstance, management is of the view that the functional currency of the Company changed in 2006 to AUD. This change was effective from December 1, 2006. The difference in the foreign exchange movements recognized in 2006 as a result of the change in functional currency was A\$44,430.

Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the Statement of Operations.

The Company has recorded foreign currency transaction gains of \$34,878 for the period from inception to June 30, 2010 and \$169,498 and \$52,265 for the three months ended June 30, 2010 and 2009, respectively and \$140,030 and \$18,487 for the six months ended June 30, 2010 and 2009, respectively.

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The results and financial position of all the Group entities that have a functional currency different from the reporting currency are translated into the reporting currency as follows:

- assets and liabilities for each balance sheet item reported are translated at the closing rate at the date of that balance sheet;
- income and expenses for each income statement are translated at average exchange rates (unless this is not a reasonable approximation of the effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- all resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of any net investment in foreign entities are taken to the Foreign Currency Translation Reserve.

Commitments and Contingencies

Liabilities for loss contingencies, arising from claims, assessments, litigation, fines, and penalties and other sources are recorded when it is probable that a liability has been incurred and the amount of the assessment can be reasonably estimated.

Patent and License Costs

Legal fees incurred for patent application costs have been charged to expense and reported in research and development expense.

Clinical Trial Expenses

Clinical trial costs are a component of research and development expenses. These expenses include fees paid to participating hospitals and other service providers, which conduct certain product development activities on behalf of the Company. Depending on the timing of payments to the service providers and the level of service provided, the Company records prepaid or accrued expenses relating to these costs.

These prepaid or accrued expenses are based on estimates of the work performed under service agreements.

Leased Assets

All of the Group's leases are considered operating leases. The costs of operating leases are charged to the statement of operations on a straight-line basis over the lease term.

Stock-based Compensation

Prior to January 1, 2006, the Company applied ASC 718 – Compensation – Stock Compensation (formerly Accounting Principles Board (APB) Opinion No. 25 — Accounting for Stock Issued to Employees) and related interpretations, in accounting for its fixed-plan stock options. For periods prior to January 1, 2006, the Company complied with the disclosure only provisions of ASC 718 (formerly FASB Statement No. 123 — Accounting for Stock-Based Compensation, or SFAS 123). No stock-based employee compensation cost was reflected in net income, as all options granted under those plans had an exercise price equal to or greater than the market value of the underlying common stock on the date of grant (or within permitted discounted prices as it pertains to the Employee Option Plan). Results for periods before January 1, 2006 have not been restated to reflect, and do not include the impact of, ASC 718 (formerly FASB Statement No. 123(R) — Share Based Payment, or SFAS 123(R)).

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As of January 1, 2006, the Company adopted ASC 718, using the modified prospective method, which requires measurement of compensation expense of all stock-based awards at fair value on the date of grant and amortization of the fair value over the vesting period of the award. The Company has elected to use the straight-line method of amortization. Under the modified prospective method, the provisions of ASC 718 apply to all awards granted or modified after the date of adoption. In addition, the unrecognized expense of awards not yet vested at the date of adoption, determined under the original provisions of ASC 718 shall be recognized in net income in the periods after adoption. The fair value of stock options is determined using the Trinomial Lattice model, which is consistent with valuation techniques previously utilized for options in footnote disclosures required under ASC 718, as amended by ASC 718 (formerly SFAS No. 148 — Accounting for Stock-Based Compensation Transition and Disclosure). Such value is recognized as expense over the service period, net of estimated forfeitures, using the straight-line method under ASC 718. There were no transitional adjustments on adoption of ASC 718.

The assumptions for the option grants computed using a Trinomial Lattice model for options issued during the 2009 financial year and for the six month period ended June 30, 2010 were:

	Grant Date					
	February 2010	November 2009	June 2009	June 2009	May 2009	February 2009
Exercise Price (A\$)	\$ 1.60	\$ 1.72	Nil	\$ 0.94	Nil	\$ 0.50
Share Price at Grant Date (A\$)	\$ 1.60	\$ 1.73	\$ 0.95	\$ 0.95	\$ 1.18	\$ 0.43
Volatility	77%	78%	80%	80%	81%	77%
Expected Life	7 years	10 years	10 years	10 years	10 years	10 years
Risk Free Interest Rate	5.34%	5.63%	5.49%	5.49%	4.87%	4.26%
Fair Value of Option (A\$)	\$ 0.99	\$ 1.13	\$ 0.95	\$ 0.62	\$ 1.04	\$ 0.28

A summary of activity in the Employee Option Plan for the six month period ended June 30, 2010 is as follows:

	Number of shares	Weighted average exercise price
		A\$
Balance at December 31, 2009	10,039,486	0.85
Granted	392,000	0.91
Exercised	(184,745)	0.51
Lapsed	(182,667)	1.34
Expired	—	—
Balance at June 30, 2010	10,064,074	0.85

All our employees are eligible to be granted options under the Employee Option Plan.

As of June 30, 2010, there was A\$2,154,051 of unrecognized compensation expense related to unvested share-based compensation arrangements under the Employee Option Plan. This expense is expected to be recognized as follows:

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Fiscal Year	A\$
2010 — remaining periods	896,775
2011	873,355
2012	331,405
2013	40,302
2014	12,214
	<u>2,154,051</u>

Pension Costs

The Company contributes to standard defined contribution superannuation funds on behalf of all employees at nine percent of each such employee's salary. Superannuation is a compulsory savings program whereby employers are required to pay a portion of an employee's remuneration to an approved superannuation fund that the employee is typically not able to access until they are retired. The Company permits employees to choose an approved and registered superannuation fund into which the contributions are paid. Contributions are charged to the statement of operations as they become payable.

Net Profit/(Loss) per Share and Anti-dilutive Securities

Basic and diluted net profit/(loss) per share is presented in conformity with ASC 260 – Earnings per Share (formerly Statement of Financial Accounting Standards No. 128 – Earnings Per Share). Basic and diluted net profit/(loss) per share has been computed using the weighted-average number of common shares outstanding during the period. All periods presented in these financial statements have been retroactively adjusted to give effect to the stock split in December 2006 (note 11). Other than in a profit making year, the potentially dilutive options issued under the Universal Biosensors Employee Option Plan were not considered in the computation of diluted net profit/(loss) per share because they would be anti-dilutive given the Company's loss making position.

Total Comprehensive Income

The Company follows ASC 220 – Comprehensive Income (formerly SFAS No. 130 — Reporting Comprehensive Income (Loss)). Comprehensive income is defined as the total change in shareholders' equity during the period other than from transactions with shareholders, and for the Company, includes net income and cumulative translation adjustments.

Recent Accounting Pronouncements

In January 2010, FASB issued Accounting Standards Update ("ASU") 2010-06, *Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements* ("ASU 2010-6"). The ASU amends Subtopic 820-10 with new disclosure requirements and clarification of existing disclosure requirements. New disclosures required include the amount of significant transfers in and out of levels 1 and 2 fair value measurements and the reasons for the transfers. In addition, the reconciliation for level 3 activity will be required on a gross rather than net basis. The ASU provides additional guidance related to the level of disaggregation in determining classes of assets and liabilities and disclosures about inputs and valuation techniques. The amendments are effective for annual or interim reporting periods beginning after December 15, 2009, except for the requirement to provide the reconciliation for level 3 activity on a gross basis, which will be effective for fiscal years beginning after December 15, 2010. The Company is currently assessing the impact of ASU 2010-6 and does not expect the adoption of this guidance to have a material impact on its condensed consolidated financial statements.

Related Party Transactions

Details of related party transactions material to the operations of the Group other than compensation arrangements, expense allowances, and other similar items in the ordinary course of business, are set out below:

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Johnson & Johnson Development Corporation, a wholly owned subsidiary of Johnson & Johnson, owns approximately 12% of the Company's shares.

LifeScan, a wholly owned subsidiary of Johnson & Johnson, makes payments to the Company or Universal Biosensors Pty Ltd through the Development and Research Agreement, Master Services and Supply Agreement and issuance of purchase orders to Universal Biosensors Pty Ltd to undertake additional services in the field of blood glucose monitoring.

The following transactions occurred with LifeScan:

	<u>Three months ended June 30,</u>		<u>Six months ended June 30,</u>	
	<u>2010</u>	<u>2009</u>	<u>2010</u>	<u>2009</u>
	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>	<u>A\$</u>
<i>Current Receivables</i>				
Reimbursement of expenses			667	2,730
Sale of goods			943,820	—
			<u>944,487</u>	<u>2,730</u>
<i>Revenue</i>				
Revenue from products	1,359,584	—	2,884,397	—
Revenue from services	1,403,779	312,590	3,296,912	1,780,054
Research and development income	—	349,848	—	738,167
	<u>2,763,363</u>	<u>662,438</u>	<u>6,181,309</u>	<u>2,518,221</u>

Other transactions with LifeScan are detailed as follows:

- Universal Biosensors Pty Ltd was reimbursed A\$538 and A\$Nil for the three months ended June 30, 2010 and 2009, and A\$538 and A\$32,353 for the six months ended June 30, 2010 and 2009, respectively for certain expenditures incurred on behalf of LifeScan.

Borrowings

In March 2009, Universal Biosensors Pty Ltd entered into an arrangement with Pacific Premium Funding Pty Limited to fund the Group's insurance premium. The total amount financed was A\$479,673 at inception. Interest was charged at a rate of 2% per annum and the short-term borrowing was repayable over an eight month period. The short-term borrowing was secured by the insurance premium refund. The borrowing was fully repaid in August 2009.

Subsequent Events

There has not arisen in the interval between the end of the second quarter to the date of this report any item, transaction or event of a material and unusual nature likely, in the opinion of the directors of the Company, to affect significantly the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

UNIVERSAL BIOSENSORS, INC.**Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion and analysis provides information that we believe is relevant to an assessment and understanding of our results of operations and financial condition. You should read this analysis in conjunction with our audited consolidated financial statements and related footnotes and Management's Discussion and Analysis of Financial Condition and Results of Operations included in our Form 10-K filed with the United States Securities and Exchange Commission ("SEC"). This Form 10-Q contains, including this discussion and analysis, certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, which are intended to be covered by the safe harbors created by such acts. For this purpose, any statements that are not statements of historical fact may be deemed to be forward looking statements, including statements relating to future events and our future financial performance. Those statements in this Form 10-Q containing the words "believes", "anticipates", "plans", "expects", and similar expressions constitute forward looking statements, although not all forward looking statements contain such identifying words.

The forward looking statements contained in this Form 10-Q are based on our current expectations, assumptions, estimates and projections about the Company and its businesses. All such forward looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results to be materially different from those results expressed or implied by these forward-looking statements, including those set forth in this Quarterly Report on Form 10-Q.

Overview

Established in 2001, we are a specialist medical diagnostics company focused on the research, development and manufacture of in vitro diagnostic test devices for consumer and professional point-of-care use. The diagnostic blood test devices we are developing comprise a novel disposable test strip and a reusable meter. These simple to use portable devices require a finger prick of blood and are designed to be used beside the patient (at the "point-of-care") to provide accurate and quick results to enable treatment to be immediately reviewed. We have rights to an extensive patent portfolio comprising certain patent applications owned by our wholly owned Australian subsidiary, Universal Biosensors Pty Ltd, and a large number of patents and patent applications licensed to us by LifeScan, Inc., an affiliate of Johnson & Johnson ("LifeScan").

We have developed a blood glucose test (used in the management of diabetes) with LifeScan which was launched by LifeScan in the Netherlands in January 2010. We intend to develop other tests in the field of diabetes and blood glucose management generally for LifeScan.

We are developing an immunoassay point-of-care test to measure the amount of C-reactive protein in the blood to assist in the diagnosis and management of inflammatory conditions. We have also undertaken work on a second point-of-care dry immunoassay to measure the amount of D-dimer in the blood. D-dimer is a well established marker currently being used as a point-of-care test for the detection and monitoring of several potentially life threatening conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). We also intend to leverage our intellectual property platform to develop additional immunoassay based point-of-care test devices by taking proven disease biomarkers currently used in the central laboratory environment and adapting those diagnostic tests to the point-of-care setting.

We have also undertaken development work on a prothrombin time test for monitoring the therapeutic range of the anticoagulant, warfarin. We have successfully taken our prothrombin time test to a point where we believe that we have significantly reduced the risk of technical failure of the product. We do not currently propose to complete the remaining development steps for this test until our partnering efforts to market it have been successful.

All of our operating activities are undertaken through our wholly-owned subsidiary, Universal Biosensors Pty Ltd, which is located in Australia. We have funded our operations primarily through the sale of our equity securities, payments from LifeScan in connection with the Development and Research Agreement, various payments under the Master Services and Supply Agreement and revenue from certain services provided to LifeScan and government and state grants.

UNIVERSAL BIOSENSORS, INC.***Master Services and Supply Agreement with LifeScan***

On October 29, 2007, we entered into a Master Services and Supply Agreement which contains the terms pursuant to which Universal Biosensors Pty Ltd would provide certain services in the field of blood glucose monitoring to LifeScan and would generally act as a non-exclusive manufacturer of an original version of the initial blood glucose test strips we developed for LifeScan ("Master Services and Supply Agreement"). On December 11, 2008, the Master Services and Supply Agreement was amended to reflect certain definitional matters in the document. On May 15, 2009, the agreement was amended and restated to incorporate the amendments made in December 2008 and to reflect changes resulting from a change to the blood glucose test strip. The Master Services and Supply Agreement is structured as an umbrella agreement which enables LifeScan and us to enter into a series of additional arrangements for the supply by us of additional services and products in the field of blood glucose monitoring. We commenced manufacture of the initial blood glucose test strips in our facility in Corporate Avenue, Rowville, Melbourne, in December 2009.

Development and Research Agreement with LifeScan

On April 1, 2002, we entered into a Development and Research Agreement with LifeScan pursuant to which we agreed to perform certain research and development activities for LifeScan in the area of diabetes management to extend and develop the glucose sensor technology owned by LifeScan. At the time of execution of the Master Services and Supply Agreement, the Development and Research Agreement was amended to conform the intellectual property provisions in the Development and Research Agreement with those in the Master Services and Supply Agreement such that LifeScan would own all intellectual property developed by us under the Development and Research Agreement and we would receive a license to such intellectual property outside of the LifeScan field of diabetes and blood glucose management generally. In May 2009, the Development and Research Agreement was amended to increase the range of development and research funding that LifeScan may pay us in 2010 and to include a new mechanism for determining research and development programs whereby we propose development and research work, and then the program of development and research is approved by the joint steering committee.

The Development and Research Agreement automatically renews for successive one year periods unless either party has given to the other party prior written notice of termination not less than nine months prior to the end of the relevant one year period, in which case the Development and Research Agreement will terminate at the end of the relevant one year period, or the agreement is otherwise terminated in accordance with its terms.

License Agreement with LifeScan

In 2002, we entered into a License Agreement with LifeScan pursuant to which LifeScan granted to us a worldwide, royalty free, exclusive license to certain electrochemical cell technologies in all fields of use excluding the LifeScan Fields of diabetes and blood glucose management generally. LifeScan has retained all rights in the LifeScan Field. Under the License Agreement, we have a right to sub-license, make, have made, use, and sell under and exploit in any way a range of key patents, patent applications and know-how owned by LifeScan, relating to electrochemical cell technologies in all fields excluding the LifeScan Fields, the rights to which are retained by LifeScan. We must pay LifeScan 50% of any royalties or payments we receive under any such sublicense. We are also contractually bound to use our best efforts to exploit the licensed intellectual property outside the LifeScan Fields, for example, in our C-reactive protein, prothrombin time tests and D-dimer tests. At the time of execution of the Master Services and Supply Agreement, the License Agreement was amended to: a) clarify the scope of the LifeScan Field in which LifeScan have exclusive rights to the relevant patents; and b) to grant us a license to certain new patents outside of the LifeScan Field.

The License Agreement may be terminated by LifeScan in the event that we fail to exploit the licensed patents and patent applications or if we are liquidated or wound up or commit a persistent and material breach of our obligations under the License Agreement and fail to rectify the breach within 90 days of written notice from LifeScan requiring it to do so. The License Agreement otherwise continues on a perpetual basis until the expiration of the last licensed LifeScan patent or patent application. LifeScan may also convert the license from an exclusive license to a non-exclusive license in certain limited circumstances where we fail to comply with the requirements of the License Agreement.

UNIVERSAL BIOSENSORS, INC.

Results of Operations

Manufacture of Products

In November 2009, LifeScan received initial regulatory clearance to sell their blood glucose product which we have been assisting to develop. We commenced manufacture of the blood glucose test strips required for this product in our facility in Rowville, Melbourne, in December 2009, ahead of the January 2010 market launch in the Netherlands. Loss sustained during the respective periods in the manufacture of the blood glucose test strips are as follows:

	Period from inception to June 30, 2010	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
	A\$	A\$	A\$	A\$	A\$
Revenue	3,017,130	1,359,584	—	2,884,397	—
Cost of goods sold	(3,933,314)	(1,936,716)	—	(3,475,152)	—
	(916,184)	(577,132)	—	(590,755)	—

Pursuant to the Master Services and Supply Agreement we have with LifeScan, one of two pricing methodologies will apply depending on whether we are manufacturing above or below a specified quantity of blood glucose tests strips in a quarter. As we produced less than the specified quantity of test strips for the June 2010 quarter, we are considered to be in the “interim costing period”. In the interim costing period, the Company is establishing its commercial scale manufacturing and therefore is not expected to generate any profit, but is expected to recover most of its glucose manufacturing costs. As manufactured volumes increase beyond the specified quantity of blood glucose test strips per quarter, the interim costing period will cease to apply and a different pricing methodology will apply, at which time we expect to be profitable in the sale of blood glucose test strips.

Services Performed

We provide various services to LifeScan based on their requirements. There are different arrangements for each service being provided. Some of the services provided are one-off whilst others may span a period exceeding 12 months. Revenue from services also includes the quarterly service fees which is based on the number of strips sold by LifeScan which is payable to us as an ongoing reward for our efforts to enhance the product. The net contribution during the respective periods in relation to the provision of services is as follows:

	Period from inception to June 30, 2010	Three months ended June 30, 2010	2009	Six months ended June 30, 2010	2009
	A\$	A\$	A\$	A\$	A\$
Revenue	9,268,737	1,403,779	—	3,296,912	—
Cost	(3,784,249)	(247,190)	—	(493,254)	—
	5,484,488	1,156,589	—	2,803,658	—

Research and Development Income

We receive research and development income under the Development and Research Agreement with LifeScan. The Development and Research Agreement provides details of the amount to be charged to LifeScan each year for the research and development services carried out by us. The annual research and development income received from LifeScan is agreed with LifeScan from time to time and is subject to us continuing our research and development activities in the blood glucose area, the provision of quarterly reports and other obligations under the Development and Research Agreement. We believe we have and continue to satisfy the requirements of the Development and Research Agreement.

Income is recognized when services have been performed, the amount of the payment can be reliably measured and collectability is reasonably assured. The recognition is not based on the completion of any milestones, or on a percentage of completion basis. The income derived from the Development and Research Agreement is recognized over the period in which the agreed upon research services are completed. Under the Development and Research Agreement, we are not matching the income to a specific expenditure but to a specified period of research.

UNIVERSAL BIOSENSORS, INC.

For fiscal 2010 onwards, income received under the Development and Research Agreement is recorded under the caption "Revenue from services".

Research and Development Expenses

Our operating expenses to date have substantially been for research and development activities. All research and development costs, including those funded by an Australian research and development grant program, are expensed as incurred.

These expenses are related to developing our electrochemical cell platform technologies. Research and development expenses consist of costs associated with research activities, as well as costs associated with our product development efforts, including pilot manufacturing costs. Research and development expenses include:

- consultant and employee related expenses, which include salary and benefits;
- materials and consumables acquired for the research and development activities;
- external research and development expenses incurred under agreements with third party organizations and universities; and
- facilities, depreciation and other allocated expenses, which include direct and allocated expenses for rent and maintenance of facilities, depreciation of leasehold improvements and equipment and laboratory and other supplies.

Our research and development activities can be described as follows:

(a) Glucose

In 2009, we completed the research and development efforts relating to the first blood glucose test which we undertook on behalf of LifeScan. We commenced the manufacture of blood glucose test strips for this test in our facility in Corporate Avenue, Rowville, Melbourne, in December 2009. This test was launched by LifeScan in the Netherlands in January 2010. We currently undertake some minor research and development activities relating to this product which includes extending its shelf life.

There are other blood glucose research and development activities undertaken by us on behalf of LifeScan. These are, however, recorded under the caption "Cost of Services" as these are funded by LifeScan, the revenue for which is recorded under "Revenue from Services".

(b) Immunoassay

We are developing a C-reactive protein test on our immunoassay platform to assist in the diagnosis and management of inflammatory conditions. Development work on this project has been undertaken since 2004. A working prototype has been developed and we expect product validation this financial year.

We are also developing a D-dimer test on our immunoassay platform for the detection and monitoring of several conditions associated with thrombotic disease, particularly deep venous thrombosis (clots in the leg) and pulmonary embolism (clots in the lung). Development work on this project has been undertaken since early 2008.

We do not currently intend to establish our own sales and marketing force to commercialize any of the non-blood glucose products which we develop. Rather, our strategy is focused on establishing collaborative partnerships for our platform with major multinationals whose ambition is to lead in key clinical and market segments. We have commenced business development efforts to establish partnerships in fields outside the area of blood glucose and diabetes.

(c) DNA/RNA

This is an early stage research project looking at the possibility of using DNA binding chemistries to build a strip test for DNA, RNA and as a possible alternative method for improving the sensitivity of protein assays.

UNIVERSAL BIOSENSORS, INC.

We have recently commenced preliminary concept feasibility with a potential partner regarding adaptation of their proprietary technology to our electrochemical cell. This concept study is at an early stage and may not yield any positive results. In the event the feasibility shows promise, we would need to negotiate suitable licence terms to access the technology on terms that are satisfactory to us.

(d) Other

Since 2005, we have undertaken development work on a prothrombin time test for monitoring the therapeutic range of the anticoagulant, warfarin, based on measuring activity of the enzyme thrombin. A working prototype has been developed. We do not currently propose to complete the remaining development steps for this test until we have entered into collaborative arrangements with a third party with respect to the commercialization of this product.

Research and development expenses for the respective periods are as follows:

	Period from inception to June 30, 2010	Three months ended June 30,		Six months ended June 30,	
	A\$	2010	2009	2010	2009
	A\$	A\$	A\$	A\$	A\$
Research and development expenses	49,533,932	1,799,551	4,104,205	3,353,778	7,337,840
Research grants received recognized against related research and development expenses	(2,366,063)	—	—	—	—
Research and development expenses as reported	47,167,869	1,799,551	4,104,205	3,353,778	7,337,840

Research and development expenditure decreased by 56% and 54% during the three and six months ended June 30, 2010 compared to the same period last year and reflects the conclusion of the development phase for the blood glucose product launched in January 2010. All direct and indirect costs pertaining to this project are now captured in the manufacturing account as opposed to being treated as a research and development expenditure in previous periods. We expect that our research and development expense will increase across the remaining quarters of 2010 as we increase the efforts applied to our other research and development programs.

While it is entirely within our control as to how much we spend on research and development activities in the future, we cannot predict what it will cost to complete our individual research and development programs successfully or when or if they will be commercialized. The timing and cost of any program is dependent upon achieving technical objectives, which are inherently uncertain.

In addition, our business strategy contemplates that we may enter into collaborative arrangements with third parties for one or more of our programs. In the event that third parties assume responsibility for certain research or development activities, the estimated completion dates of those activities will typically be under the control of the third party rather than with us.

General and administrative expenses

General and administrative expenses increased by 28% and 26% during the three and six months ended June 30, 2010 compared to the same period last year. This increase in expenses reflects growth in the size and complexity of our operations. There are also incremental costs associated with our shares trading in the form of CDIs quoted on the ASX and compliance costs associated with being a United States issuer subject to SEC reporting requirements.

General and administrative expenses currently consist principally of salaries and related costs, including stock option expense, for personnel in executive, finance, accounting, information technology and human resources functions. Other general and administrative expenses include depreciation, repairs and maintenance, insurance, facility costs not otherwise included in research and development expenses, consultancy fees and professional fees for legal, audit and accounting services.

UNIVERSAL BIOSENSORS, INC.

We expect that our general and administrative expenses will increase as we expand our legal, accounting, marketing and sales staff, add infrastructure and incur additional costs related to operating as a company whose shares in the form of CDIs are quoted on the ASX and compliance costs associated with being a United States issuer subject to SEC reporting requirements.

Interest Income

Interest income increased by 70% and 38% during the three and six months ended June 30, 2010 compared to the same period last year. The increase in interest income is attributable to increased returns on the funds invested.

Interest Expense

Interest expense of A\$3,614 and A\$7,227 for the three and six months ended June 30, 2009 relates to 2% interest being charged on a short-term borrowing which was fully repaid in August 2009. Interest expense for the three and six months ended June 30, 2010 was zero.

Liquidity and Capital Resources

Since inception, our operations have mainly been financed through the issuance of equity securities. Additional funding has come through payments received from LifeScan under the Development and Research Agreement, revenue from services, various payments under the Master Services and Supply Agreement and a one-time payment for manufacturing process support and research grants and interest on investments. As of June 30, 2010, we had A\$27,164,097 in cash, cash equivalents and short-term investments. Our cash and investment balances are held in money market accounts and short-term instruments. Cash in excess of immediate requirements is invested in short-term instruments with regard to liquidity and capital preservation.

For the six-month period ended June 30, 2010, we used net cash of A\$3,031,193 for operating activities. This consisted of a net loss for the period of A\$3,622,807, which included A\$1,452,664 of non-cash depreciation and amortization and non-cash stock option expense of A\$995,209. Net cash used in investing activities during the six-month period ended June 30, 2010 was A\$1,186,397, which included purchase of plant and equipment of A\$355,076 and the balance deposit towards manufacturing equipment. Net cash provided by financing activities during the six-month period ended June 30, 2010 was A\$90,676.

As at June 30, 2010, we had cash and cash equivalents of A\$27,164,097 as compared to A\$22,284,881 as of June 30, 2009. The increase in cash and cash equivalents balance is predominantly as a result of the receipt of the milestone payment of A\$17,722,641 in December 2009. The increase has been offset by our payments for our ongoing operations, including our capital expenditure outlay.

We currently fund our operations through a combination of our cash inflows mostly from LifeScan and the residual through our existing cash and cash equivalents balance. The cash inflows from LifeScan are pursuant to the Master Services and Supply Agreement we entered initially with LifeScan in October 2007 and amended and rested in May 2009, and our Development and Research Agreement. The receipt and timing of any further revenue under the Master Services and Supply Agreement going forward is uncertain and is largely dependent on the volume of blood glucose strips manufactured by us and LifeScan and ultimately sold by LifeScan. The proceeds from contract research work depend on the level of work awarded to us by LifeScan. We, however, believe that the cash on hand together with anticipated cash inflows will be sufficient to meet our liquidity and capital resources needs for the next 12 months.

Operating Capital and Capital Expenditure Requirement

As a result of the numerous risks and uncertainties associated with our business strategy, we are unable to estimate the exact amounts of our capital and working capital requirements. We estimate our total capital expenditures in 2010 to be in the range of A\$3,000,000 to A\$4,000,000 for the purchase of equipment to support our activities under the Master Services and Supply Agreement, capacity expansion, for ongoing development of our existing products, and for other ongoing research and development activities. Our future funding requirements will depend on many factors, including, but not limited to:

UNIVERSAL BIOSENSORS, INC.

- our business and product development strategies;
- expenses we incur in manufacturing and developing products and the services and development programs we undertake from LifeScan;
- changes to our operations to enable us to perform services required under the Master Services and Supply Agreement;
- the sales of blood glucose test strips by LifeScan and the quantities of blood glucose test strips to be manufactured by us for LifeScan;
- the timing and amount of receipts of revenue from LifeScan under the Master Services and Supply Agreement;
- costs and timing of regulatory approvals and market launches of the blood glucose test;
- the costs of undertaking and success of our research and development efforts;
- any need to further scale up our manufacturing operations, including additional costs related to the fit out of our manufacturing facility in Melbourne, Australia and the acquisition of additional manufacturing equipment;
- the rate of progress and cost of our product development activities;
- the timing and success of any corporate collaborations or strategic alliances with respect to our tests in development, including revenues expected from such collaborations;
- the timing and amount of revenue generated by sales of our point-of-care tests;
- costs of filing, prosecuting, defending and enforcing any patent claims and other intellectual property rights;
- the terms and timing of any collaborative, licensing and other arrangements that we may establish; and
- the acquisition of businesses, products and technologies, although we currently have no commitments or agreements relating to any of these types of transactions.

Off-Balance Sheet Arrangement

The future minimum lease payments under non-cancelable operating leases (with initial or remaining lease terms in excess of one year) as of June 30, 2010 are:

Less than 1 year	A\$ 528,523
1 – 3 years	1,108,729
3 – 5 years	577,827
More than 5 years	—
Total minimum lease payments	A\$ <u>2,215,079</u>

The above relates to our operating lease obligations in relation to the lease of our premises.

Contractual Obligations

Our future contractual obligations at June 30, 2010 were as follows:

	Payments Due By Period				
	Total	Less than 1 year	1 – 3 years	3 – 5 years	More than 5 years
Long-Term Debt Obligations	—	—	—	—	—
Asset Retirement Obligations (1)	1,920,300	—	—	1,920,300	—
Operating Lease Obligations (2)	2,215,079	528,523	1,108,729	577,827	—
Purchase Obligations	—	—	—	—	—
Other Long-Term Liabilities on Balance Sheet under GAAP (3)	330,151	—	—	—	330,151
Total	<u>4,465,530</u>	<u>528,523</u>	<u>1,108,729</u>	<u>2,498,127</u>	<u>330,151</u>

- (1) Represents legal obligations associated with the retirement and removal of long-lived assets.
- (2) Our operating lease obligations relate primarily to the lease of our premises.
- (3) Represents long service leave owing to the employees

UNIVERSAL BIOSENSORS, INC.***Segments***

We operate in one segment. Our principal activities are research and development, commercial manufacture of approved medical or testing devices and the provision of services such as those specified under the Master Services and Supply Agreement including contract research work. We operate predominantly in one geographical area, being Australia.

UNIVERSAL BIOSENSORS, INC.

Item 3 Quantitative and Qualitative Disclosures About Market Risk

Foreign Currency Market Risk

We transact business in various foreign currencies, including U.S. dollars and Euros. We have established a foreign currency hedging program using forward contracts to hedge the net projected exposure for each currency and the anticipated sales and purchases in U.S. dollars and Euros. The goal of this hedging program is to economically guarantee or lock-in the exchange rates on our foreign exchange exposures. The Company does not hold or issue derivative financial instruments for trading purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

The following table sets out the notional amounts and weighted average exchange rates by expected (contractual) maturity dates. These notional amounts generally are used to calculate the contractual payments to be exchanged under the contract.

<i>Anticipated Transactions and Related Derivatives</i>	2010 (*)	Fair Value
AUD Functional Currency:		
Forward exchange agreements (Sell AUD/Buy Euros)		
Contract amount	A\$555,428	A\$546,546
Average contractual exchange rate	0.8687	

* Expected maturity or transaction date

Interest Rate Risk

Our exposure to interest income sensitivity, which is affected by changes in the general level of Australian interest rates, particularly because the majority of our investments are in AUD in cash and cash equivalents. The primary objective of our investment activities is to preserve principal while at the same time maximizing the income we receive without significantly increasing risk. Our investment portfolio is subject to interest rate risk but due to the short duration of our investment portfolio, we believe an immediate 10% change in interest rates would not be material to our financial condition or results of operations.

UNIVERSAL BIOSENSORS, INC.**Item 4 Controls and Procedures***Evaluation of Disclosure Controls and Procedures.*

With the participation of our management, including the Company's principal executive officer and principal financial officer, our management has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the "Exchange Act")) as of the end of the period covered by this Quarterly Report on Form 10-Q. Based upon that evaluation, the Company's principal executive officer and principal financial officer have concluded that the Company's disclosure controls and procedures are effective as of the end of the period covered by this Quarterly Report on Form 10-Q.

Changes in Internal Control Over Financial Reporting.

During the most recent quarter ended June 30, 2010, there has been no change in our internal control over financial reporting (as defined in Rule 13a-15(f) and 15d-15(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

UNIVERSAL BIOSENSORS, INC.

PART II

Item 1 Legal Proceedings

N/A

Item 1A Risk Factors

N/A

Item 2 Unregistered Sales of Equity Securities and Use of Proceeds

With the exception of the proceeds received from the exercise of stock options issued to employees, there has been no further sale of equity securities since December 31, 2009. The table below sets forth the number of employee stock options exercised and the number of shares issued in the 6 month period ended June 30, 2010. The Company issued these shares in reliance upon exemptions from registration under Regulation S under the Securities Act of 1933, as amended.

Exercise Date	Number of Options Exercised and Corresponding Number of Shares Issued	Option Exercise Price	Proceeds Received (A\$)
February, 2010	23,333	A\$0.89	20,766
	20,000	A\$0.94	18,800
	4,000	A\$0.50	2,000
	18,124	US\$0.26	5,104
	13,332	A\$1.18	15,732
	18,124	US\$0.22	4,489
March, 2010	33,333	Nil	—
	6,666	A0.89	5,933
	6,666	A\$0.70	4,666
	2,000	A\$0.94	1,880
May, 2010	12,500	Nil	—
June, 2010	6,667	A\$0.94	6,267
	20,000	US\$0.22	4,040
	<u>184,745</u>		<u>89,677</u>

The funds raised will be used for working capital requirements including the continued development of our existing pipeline and point-of-care tests and to identify and develop additional tests.

Item 3 Defaults Upon Senior Securities

N/A

Item 4 [Removed and Reserved]

N/A

Item 5 Other Information

N/A

UNIVERSAL BIOSENSORS, INC.**Item 6 Exhibits**

<u>Exhibit No</u>	<u>Description</u>	<u>Location</u>
31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
31.2	Rule 13a-14(a)/15d-14(a) Certification (Principal Financial Officer)	Filed herewith
32.0*	Section 1350 Certificate	Filed herewith

* This exhibit is furnished rather than filed, and shall not be incorporated by reference into any filing of the registrant in accordance with Item 601 of Registration S-K

UNIVERSAL BIOSENSORS, INC.**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.

UNIVERSAL BIOSENSORS, INC.

(Registrant)

Date: August 6, 2010

By: /s/ MARK MORRISSON

Mark Morrisson
Chief Executive Officer and Executive
Director

Date: August 6, 2010

By: /s/ SALESH BALAK

Salesh Balak
Chief Financial Officer

INDEX TO EXHIBITS
Quarterly Report on Form 10-Q
Dated August 6, 2010

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31.1	Rule 13a-14(a)/15d-14(a) Certification (Principal Executive Officer)	Filed herewith
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32.0	Section 1350 Certificate	Filed herewith