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Restricted cash

(498) (411) (3,334)

Purchases of property, plant and equipment

(215,633) (178,308) (365,421)

NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES

(2,073,427) 5,519,535 1,466,297

CASH FLOWS PROVIDED BY (USED IN) FINANCING ACTIVITIES

Proceeds from exercise of options

62,560 4,000

Settlements of restricted stock for tax withholding obligations

(42,491) (4,413)

NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES

20,069 (4,413) 4,000

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS

1,271,024 3,732,705 (832,946)

CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD

\$ 7,613,378 \$ 3,880,673 \$ 4,713,619

CASH AND CASH EQUIVALENTS AT END OF PERIOD

\$ 8,884,402 \$ 7,613,378 \$ 3,880,673

See the accompanying Notes to the Consolidated Financial Statements.

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DUSA PHARMACEUTICALS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1) NATURE OF BUSINESS

DUSA Pharmaceuticals, Inc. (DUSA or the Company) is a vertically integrated dermatology company that is developing and marketing Levulan® photodynamic therapy (PDT) and other products for common skin conditions. The Company's marketed products include, among others, Levulan® Kerastick® 20% Topical Solution with PDT, the BLU-U® brand light source, and ClindaReach®.

The Levulan® Kerastick® 20% Topical Solution with PDT and the BLU-U® brand light source were launched in the United States, or U.S., in September 2000 for the treatment of non-hyperkeratotic actinic keratoses, or AKs, of the face or scalp. AKs are precancerous skin lesions caused by chronic sun exposure that can develop over time into a form of skin cancer called squamous cell carcinoma. In addition, in September 2003, the Company received clearance from the U.S. Food and Drug Administration, or FDA, to market the BLU-U® without Levulan® PDT for the treatment of moderate inflammatory acne vulgaris and general dermatological conditions.

The Company operates in two segments, Photodynamic Therapy (PDT) Drug and Device Products and Non-Photodynamic Therapy (Non-PDT) Drug Products. The Company's Levulan® Kerastick® and BLU-U® products comprise its PDT segment, while its Non-PDT segment is comprised of products acquired in the acquisition of Sirius Laboratories, Inc., which occurred in 2006.

2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Principles of Consolidation The Company's consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, DUSA Pharmaceuticals New York, Inc. and Sirius Laboratories, Inc. All intercompany balances and transactions have been eliminated in consolidation.

b) Basis of Presentation and Use of Estimates These financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP). Such principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

c) Cash and Cash Equivalents Cash equivalents include short-term highly liquid money market funds. All other investments are classified as marketable securities. The Company maintained cash of \$175,000 at December 31, 2010 and 2009 in a separate bank account in support of a letter of credit of \$172,000 that was issued in lieu of a security deposit on the lease for its manufacturing facility in Wilmington, Massachusetts. The cash is presented in restricted cash as a non-current asset in the Consolidated Balance Sheets.

d) Marketable Securities The Company records marketable securities at fair value as available-for-sale with unrealized holding gains (losses) recorded in accumulated other comprehensive income. The Company amortizes or accretes the premiums and discounts paid for the securities into interest income over the period to maturity of the securities. As the Company's marketable securities are available to fund operations and as management may sell a portion of its marketable securities in the next fiscal year in order to meet its working capital requirements, all marketable securities are classified as current assets. Realized gains and losses are determined on the specific identification method.

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e) Inventory Inventory is stated at the lower of cost (first-in, first-out method) or market. Inventory identified for research and development activities is expensed in the period in which such inventory is designated for such use. BLU-U® commercial light sources placed in physicians' offices for an initial evaluation period are included in inventory in the accompanying Consolidated Balance Sheets and amortized over a three year period or until sold to the physician's office evidenced by the fact that all revenue recognition criteria have been met. Inventories are continually reviewed for slow moving, obsolete and excess

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DUSA PHARMACEUTICALS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

items. Sales projections are used to estimate the appropriate level of inventory reserves, if any, that are necessary at each balance sheet date.

f) Property, Plant and Equipment Property, plant and equipment is carried at cost less accumulated depreciation and amortization. Depreciation is computed on a straight-line basis over the estimated lives of the related assets. Leasehold improvements are amortized over the lesser of their useful lives or the lease terms.

g) Valuation of Long-Lived Assets The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a long-lived asset may not be recoverable or that the useful lives of these assets are no longer appropriate. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. When it is determined that the carrying value of a long-lived asset is not recoverable, the asset is written down to its estimated fair value on a discounted cash flow basis. There have been no impairment charges recorded for long-lived assets in the Consolidated Statements of Operations in 2010, 2009, or 2008.

h) Goodwill and Other Intangible Assets Goodwill and intangible assets with indefinite lives are not amortized but are reviewed annually for impairment or more frequently if impairment indicators arise. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives. At December 31, 2010, the Company has no goodwill or intangible assets. In 2008 a goodwill impairment charge of approximately \$1,500,000 was recorded related to the Company's 2006 acquisition of Sirius Laboratories, Inc.

i) Revenue Recognition *PDT revenue.* Revenues on Kerastick® and BLU-U® product sales in the U.S. and Canada are recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred, and collection is reasonably assured. DUSA offers programs that allow physicians access to our BLU-U® device for a trial period. No revenue is recognized on these units until the physician elects to purchase the equipment and all other revenue recognition criteria are met. DUSA's terms with customers do not provide for the right of return for sales of Kerastick® and BLU-U®, unless the product does not comply with the technical specifications.

For revenues associated with contractual agreements with multiple elements, the Company applies the revenue recognition criteria outlined in Securities and Exchange Commission (SEC) Staff Accounting Bulletin Topic 13, *Revenue Recognition* (SAB Topic 13) and ASC 605-25, *Multiple Element Arrangements*. Each contract is analyzed in order to separate each deliverable into separate units of accounting, if applicable, and then recognize revenue for those separated units as earned. Significant judgment is required in determining the units of accounting and the attribution method for such arrangements.

The Company has entered into exclusive marketing, distribution and supply agreements with distributors in Latin America and Asia Pacific that contain multiple deliverables. The deliverables are treated as a single unit of accounting. The Company has determined the attribution method for each of the separate payment streams. Under the terms of these agreements, the Company receives non-refundable milestone payments, a fixed price per unit sold and royalties based on a percentage of the net sales price to end-users. Milestones are deferred and recognized as license revenues on a straight-line basis, beginning on the date the milestone is achieved through term of the agreement, which is 10 years for these agreements. The fixed price per unit sold is recognized once the price is fixed and determinable, which is upon sell through to end users. The Company records royalty revenue when earned, which is also upon sell through to end users. Additionally, the Company does not have sufficient data to determine product acceptance in the marketplace. The agreements require the distributors to make minimum purchases. If minimum

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purchase obligations are not fulfilled, the distributors are required to pay the difference between their actual purchases and the contractual minimums (a gross-up payment). Revenue for the gross-up payment is recorded upon cash receipt. For Daewoong, the Company's

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

distributor in Asia Pacific, the minimum purchase commitment is measured over a five-year period, which has not yet ended.

Non-PDT Revenue. The Company recognizes revenue for sales of Non-PDT Drug Products when substantially all the risks and rewards of ownership have transferred to the customer, which generally occurs on the date of shipment to wholesale customers. Revenue is recognized net of revenue reserves, which consist of allowances for discounts, returns, rebates, chargebacks and fees paid to wholesalers under distribution service agreements.

The Company evaluates inventory levels at its wholesaler customers, which account for the vast majority of its sales in the Non-PDT Drug Products segment, through an analysis that considers, among other things, wholesaler purchases, wholesaler shipments to retailers, available end-user prescription data obtained from third parties and on-hand inventory data received directly from our three largest wholesaler customers. The Company believes that this evaluation of wholesaler inventory levels, allows it to make reasonable estimates for its applicable revenue related reserves. Additionally, the Company's products are sold to wholesalers with a product shelf life that allows sufficient time for its wholesaler customers to sell its products in their inventory through to retailers and, ultimately, to end-user consumers prior to product expiration.

For new product launches where the Company does not have the ability to reliably estimate returns, revenue is recognized based on delivery to the end user, which is typically based on dispensed subscription data, or ship-through data as reported by the Company's international distribution partners. When inventories have been reduced to targeted stocking levels at wholesalers or distribution partners, and the Company has sufficient data to determine product acceptance in the marketplace which allows the Company to estimate product returns, the Company recognizes revenue upon shipment, net of discounts and allowances.

The Company establishes an accrual in an amount equal to its estimate of sales recorded for which the related products are expected to be returned. The Company determines the estimate of the sales return accrual primarily based on historical experience regarding sales and related returns and incorporating other factors that could impact sales returns in the future. These other factors include levels of inventory in the distribution channel, estimated shelf life, product recalls, product discontinuances, price changes of competitive products, introductions of generic products and introductions of competitive new products. The Company's policy is to accept returns when product is within six months of expiration. The Company considers all of these factors and adjusts the accrual periodically to reflect actual experience.

A summary of activity in the Company's reserve accounts are as follows:

	Balance at January 1, 2010	Provision	Actual Returns or Credits	Balance at December 31, 2010
Accrued Expenses:				
Sales returns and allowances	\$ 225,000	\$ 166,000	\$ (266,000)	\$ 125,000

	Balance at January 1, 2009	Provision	Actual Returns or Credits	Balance at December 31, 2009
Accrued Expenses:				
Sales returns and allowances	\$ 500,000	\$ 290,000	\$ (565,000)	\$ 225,000
Chargebacks and rebates	\$ 30,000	\$ 4,000	\$ (32,000)	\$ 2,000

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

	Balance at January 1, 2008	Provision	Actual Returns or Credits	Balance at December 31, 2008
Accrued Expenses:				
Sales returns and allowances	\$ 546,000	\$ 916,000	\$ (962,000)	\$ 500,000
Chargebacks and rebates	\$ 200,000	\$ 408,000	\$ (578,000)	\$ 30,000

j) Warranty Costs The Company accrues for estimated future warranty costs on its BLU-® sales at the time of sale. The Company's products are subject to rigorous regulation and quality standards. Warranty costs, which are included in cost of product revenues, were \$71,000, \$79,000 and \$89,000 for the years ended December 31, 2010, 2009 and 2008, respectively.

k) Research and Development Costs Costs related to the conceptual formulation and design of products and processes are expensed as research and development costs as incurred. Purchased technology, including the costs of licensed technology for a particular research project that do not have alternative future uses, is expensed as incurred.

l) Marketing and Sales Costs Costs included in marketing and sales consist mainly of overhead expenses such as salaries and benefits for the marketing and sales staff, commissions, and related support expenses such as travel, and telephone, as well as costs related to trade shows costs, miscellaneous marketing and outside consultants. All such costs are expensed as incurred.

m) Income Taxes The Company recognizes deferred income tax assets and liabilities for the expected future tax consequences for events that have been included in the Company's financial statements or tax returns. Deferred tax assets and liabilities are based on the difference between the financial statement and tax bases of assets and liabilities using tax rates expected to be in effect in the years in which these differences are expected to reverse. A valuation allowance is provided to reduce the deferred tax assets to the amount that will more likely than not be realized.

The Company determines whether it is more likely than not that a tax position will be sustained upon examination. If it is not more likely than not that a position will be sustained, no amount of the benefit attributable to the position is recognized. The tax benefit to be recognized of any tax position that meets the more likely than not recognition threshold is calculated as the largest amount that is more than 50% likely of being realized upon resolution of the contingency.

As of December 31, 2010 and 2009 the total amount of unrecognized tax benefits was \$1,355,000 and \$1,399,000, respectively, all of which, if recognized, would affect the effective tax rate prior to the adjustment for the Company's valuation allowance. The Company has not recognized an increase in tax liability for the unrecognized tax benefits because the Company has recorded a tax net operating loss carryforward that would offset this liability.

The Company recognizes interest and penalties related to unrecognized tax benefits in operating expenses. Since a full valuation allowance was recorded against the Company's net deferred tax assets and the unrecognized tax benefits

would not result in a tax liability, the Company has not accrued for any interest and penalties relating to these unrecognized tax benefits.

n) Basic and Diluted Net Income (Loss) Per Common Share Basic net income (loss) per common share is based on the weighted-average number of common shares outstanding during each period. Diluted net income (loss) is based on the weighted-average shares outstanding and any contingently issuable shares. The net outstanding shares are adjusted for the dilutive effect of shares issuable upon the assumed conversion of

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

the Company's common stock equivalents, which consist of outstanding stock options, warrants and unvested shares of common stock using the treasury stock method.

	Years Ended December 31,		
	2010	2009	2008
Weighted average common shares outstanding-basic	24,188,163	24,102,085	24,079,414
Stock options and unvested shares of common stock	577,747		
Weighted average common shares outstanding-diluted	24,765,910	24,102,085	24,079,414

The following were not included in weighted average common shares outstanding because they are anti-dilutive:

	Years Ended December 31,		
	2010	2009	2008
Stock options	2,837,000	2,664,000	3,011,000
Warrants	1,395,000	1,395,000	1,395,000
Unvested shares of common stock	236,000	393,000	91,000
Total	4,468,000	4,452,000	4,497,000

o) Share-Based Compensation The Company's stock-based compensation cost is measured at the grant date based on the fair value of the award and is recognized as expense over the requisite service period, which generally represents the vesting period, and includes an estimate of the awards that will be forfeited. The Company uses the Black-Scholes valuation model for estimating the fair value on the date of grant of stock options. The fair value of stock option awards is affected by the Company's stock price as well as valuation assumptions, including the volatility of Company's stock price, expected term of the option, risk-free interest rate and expected dividends. The fair value on the date of grant for unvested common shares is typically the Company's common share price on that date.

p) Comprehensive Income (Loss) The Company has reported accumulated comprehensive income (loss) and its components as part of its Consolidated Statements of Shareholders' Equity. Comprehensive income (loss), apart from net income (loss), relates to net unrealized gains and losses on marketable securities.

q) Segment Reporting The Company has two reportable segments, Photodynamic Therapy (PDT) Drug and Device Products and Non-Photodynamic Therapy (Non-PDT) Drug Products. Operating segments are defined as components of the Company for which separate financial information is available to manage resources and evaluate performance regularly by the chief operating decision maker. The Company does not allocate research and development, selling and marketing and general and administrative expenses or long-lived assets to its reportable segments, because these activities are managed at a corporate level.

r) Concentrations The Company invests cash in accordance with a policy objective that seeks to preserve both liquidity and safety of principal. The Company manages the credit risk associated with its investments in marketable securities by investing in U.S. government securities and investment grade corporate bonds. The Company's exposure to credit risk relating to its accounts receivable is limited. To manage credit risk in accounts receivable, the Company performs regular credit evaluations of its customers and provides allowances for potential credit losses, when applicable. The Company is dependent upon sole-source suppliers for a number of its products. There can be no assurance that these suppliers will be able to meet the Company's future requirements for such products or parts or that they will be available at favorable terms. Any extended interruption in the supply of any such products or parts or any significant price increase could have a material adverse effect on the Company's operating results in any given period.

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

s) Derivative Financial Instruments The Company has issued common stock warrants in connection with the October 2007 private placement (See Note 8). The warrants are accounted for as derivative liabilities at fair value. Changes in fair value of derivative liabilities are recorded in the Consolidated Statements of Operations under the caption (Loss) gain on change in fair value of warrants. The fair value of the warrant liability is determined using the Black-Scholes option-pricing model. The fair value of the warrants is subject to significant fluctuation based on changes in the Company's stock price, expected volatility, remaining contractual life and the risk-free interest rate.

In connection with the October 2007 private placement, the Company filed a registration statement with the SEC, which was declared effective by the SEC on January 24, 2008, for the registration of the total number of shares sold to the investors and shares issuable upon the exercise of warrants. The Company is required under the agreement to use commercially reasonable efforts to cause the registration to remain continuously effective until such time when all of the registered shares are sold. In the event the Company fails to meet the requirements in regards to the registration statement, it will be obligated to pay the investors, as partial liquidated damages and not as a penalty, an amount in cash equal to 1% of the aggregate purchase price paid by investors for each monthly period that the registration statement is not effective, up to 12%. If the Company determines a payment under this registration rights arrangement is probable and can be reasonably estimated, a liability will be recorded. As of December 31, 2010, the Company concluded the likelihood of having to make any payments under the arrangements was remote, and therefore did not record any related contingent liability as of December 31, 2010.

t) Recently Issued Accounting Standards In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2010-13, *Multiple-Deliverable Revenue Arrangements* (ASU No. 2010-13). ASU No. 2010-13, which amends existing revenue recognition accounting pronouncements and provides accounting principles and application guidance on whether multiple deliverables exist, how the arrangement should be separated, and the consideration allocated. This guidance eliminates the requirement to establish the fair value of undelivered products and services and instead provides for separate revenue recognition based upon management's estimate of the selling price for an undelivered item when there is no other means to determine the fair value of that undelivered item. Previous accounting principles required that the fair value of the undelivered item be the price of the item either sold in a separate transaction between unrelated third parties or the price charged for each item when the item is sold separately by the vendor. This was difficult to determine when the product was not individually sold because of its unique features. If the fair value of all of the elements in the arrangement was not determinable, then revenue was deferred until all of the items were delivered or fair value was determined. This new approach is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010, which for the Company means January 1, 2011. The Company does not expect the adoption of ASU 2010-13 to have a material impact on the Company.

In December 2010, the FASB issued ASU No. 2010-027, *Fees Paid to the Federal Government by Pharmaceutical Manufacturers* (ASU 2010-027). ASU 2010-027 provides guidance concerning the recognition and classification of the new annual fee payable by branded prescription drug manufacturers and importers on branded prescription drugs, which was mandated under the health care reform legislation enacted in the U.S. in March 2010. Under this new accounting standard, the annual fee, which the Company does not expect to be material to its operating results, would be presented as a component of operating expenses and recognized over the calendar year such fees are payable using a straight-line method of allocation unless another method better allocates the fee over the calendar year. This ASU is effective for calendar years beginning on or after December 31, 2010, when the fee initially becomes effective, which for the Company is 2011. As this standard relates only to classification, the adoption of this accounting standard will not have an impact on our financial position or results of operations.

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DUSA PHARMACEUTICALS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

3) FINANCIAL INSTRUMENTS

Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, financial instruments are categorized based on a hierarchy that prioritizes observable and unobservable inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted market prices in active markets for identical assets or liabilities. Level 1 primarily consists of financial instruments whose value is based on quoted market prices such as exchange-traded instruments and listed equities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data. Level 2 consists of financial instruments that are valued using quoted market prices, broker or dealer quotations, or alternative pricing sources with reasonable levels of price transparency in the determination of value. The Company accesses publicly available market activity from third party databases and credit ratings of the issuers of the securities it holds to corroborate the data used in the fair value calculations obtained from its primary pricing source. The Company also takes into account credit rating changes, if any, of the securities or recent marketplace activity.

Level 3: Unobservable inputs that are not corroborated by market data. Level 3 is comprised of financial instruments whose fair value is estimated based on internally developed models or methodologies utilizing significant inputs that are generally less readily observable. We initially recorded the warrant liability at its fair value using the Black-Scholes option-pricing model and revalue it at each reporting date until the warrants are exercised or expire. The fair value of the warrants is subject to significant fluctuation based on changes in our stock price, expected volatility, remaining contractual life and the risk-free interest rate.

Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The Company's cash equivalents and investments are classified within Level 1 or Level 2 of the fair value hierarchy because they are valued using quoted market prices, or broker dealer quotations and matrix pricing compiled by third party pricing vendors, respectively, which are based on third party pricing sources with reasonable levels of price transparency. The Company's investments are valued based on a market approach in which all significant inputs are observable or can be derived from or corroborated by observable market data such as interest rates, yield curves, and credit risk.

The following table presents the Company's financial instruments recorded at fair value in the Consolidated Balance Sheet, classified according to the three categories described above:

Fair Value Measurements at December 31, 2010				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)
Assets				
Cash and cash equivalents	\$ 8,884,000	\$ 8,884,000		
United States government-backed securities	9,985,000		\$ 9,985,000	
Corporate debt securities	778,000		778,000	
Total assets at fair value	19,647,000	8,884,000	10,763,000	
Liabilities				
Warrant liability	1,204,000			\$ 1,204,000
Total liabilities at fair value	\$ 1,204,000	\$	\$	\$ 1,204,000

Fair Value Measurements at December 31, 2009				
	Carrying Value	(Level 1)	(Level 2)	(Level 3)
Assets				
Cash and cash equivalents	\$ 7,613,000	\$ 7,613,000		
United States government-backed securities	8,150,000		\$ 8,150,000	
Corporate debt securities	906,000		906,000	
Total assets at fair value	16,669,000	7,613,000	9,056,000	
Liabilities				
Warrant liability	813,000			\$ 813,000
Total liabilities at fair value	\$ 813,000	\$	\$	\$ 813,000

The Company reviewed the level classifications of its investments at December 31, 2010 compared to December 31, 2009 and determined that there were no significant transfers between levels in the year ended December 31, 2010.

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

The table below includes a rollforward of the balance sheet amounts for the year ended December 31, 2010 for the warrant liability, which is classified as Level 3. When a determination is made to classify a financial instrument within Level 3, the determination is based upon the significance of the unobservable parameters to the overall fair value measurement. However, Level 3 financial instruments typically include, in addition to the unobservable components, observable components (that is, components that are actively quoted and can be validated to external sources). Accordingly, the gains and losses in the table below include changes in fair value due in part to observable factors that are part of the methodology.

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Year Ended December 31, 2010

	Fair Value at	Total Unrealized Loss Recognized in Statement of Operations	Purchases, Sales, Issuances, Settlements, Net	Transfers In and/or Out of Level 3	Fair Value at December 31, 2010	Change in Unrealized Gains in 2010
Warrant Liability	\$ 813,000	\$ 391,000	\$	\$	\$ 1,204,000	\$ (391,000)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Year Ended December 31, 2009

	Fair Value at January 1, 2009	Total Unrealized Loss Recognized in Statement of Operations	Purchases, Sales, Issuances, Settlements, Net	Transfers In and/or Out of Level 3	Fair Value at December 31, 2009	Change in Unrealized Gains in 2009
Warrant Liability	\$ 436,000	\$ 377,000	\$	\$	\$ 813,000	\$ (377,000)

Marketable Securities

The Company's marketable securities consist of the following:

		December 31, 2010		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
United States government-backed securities	\$ 9,954,000	\$ 34,000	\$ (3,000)	\$ 9,985,000
Corporate debt securities	732,000	46,000		778,000
Total marketable securities	\$ 10,686,000	\$ 80,000	\$ (3,000)	\$ 10,763,000

		December 31, 2009		
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
United States government-backed securities	\$ 8,005,000	\$ 145,000	\$	\$ 8,150,000
Corporate debt securities	826,000	80,000		906,000
Total marketable securities	\$ 8,831,000	\$ 225,000	\$	\$ 9,056,000

The Company amortizes or accretes the premiums and discounts paid for the securities into interest income over the period to maturity of the securities. The (decrease) increase in net unrealized gains on such securities for the years ended December 31, 2010, 2009 and 2008 was \$(148,000), \$(159,000) and \$212,000, respectively, which has been recorded in accumulated other comprehensive income and is reported as part of shareholders' equity in the Consolidated Balance Sheets. Realized losses on sales of marketable securities

Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

were \$0, \$44,000 and \$50,000 in 2010, 2009 and 2008, respectively. As of December 31, 2010, current yields range from 0.11% to 6.11% and maturity dates range from January 2011 to December 2013.

Common Stock Warrants.

Upon issuance of the warrants on October 29, 2007, the Company recorded the warrant liability at its initial fair value of \$1,950,000. Warrants that are classified as a liability are revalued at each reporting date until the warrants are exercised or expire with changes in the fair value reported in the Company's Consolidated Statements of Operations as gain or loss on fair value of warrants. Non-cash (losses) gains for 2010, 2009 and 2008, were \$(391,000), \$(376,000) and \$826,000, respectively. At December 31, 2010 and 2009, the aggregate fair value of these warrants was \$1,204,000 and \$813,000, respectively. Assumptions used for the Black-Scholes option-pricing models in determining the fair value as of December 31, 2010 and 2009 are as follows:

	December 31,		
	2010	2009	2008
Expected volatility	81%	88%	75%
Remaining contractual term (years)	2.3	3.3	4.3
Risk-free interest rate	0.7%	1.9%	1.6%
Expected dividend yield	0%	0%	0%
Common stock price	\$ 2.45	\$ 1.6	\$ 1.1

4) INVENTORY

Inventory consisted of the following at December 31:

	2010	2009
Finished goods	\$ 907,000	\$ 974,000
BLU-U® evaluation units	129,000	58,000
Work in process	371,000	398,000
Raw materials	758,000	740,000
	\$ 2,165,000	\$ 2,170,000

BLU-U® commercial light sources placed in physicians' offices for an initial evaluation period are included in inventory until all revenue recognition criteria are met. The Company amortizes the cost of the evaluation units during the evaluation period of three years to cost of product revenues to approximate its net realizable value.

5) PROPERTY, PLANT AND EQUIPMENT

Property, plant and equipment, at cost, consisted of the following at December 31:

	Useful Life (In years)	2010	2009
Computer equipment and software	3	\$ 3,006,000	\$ 2,877,000
Furniture, fixtures and equipment	5	1,183,000	1,171,000
Manufacturing facility	Term of lease	2,204,000	2,204,000
Manufacturing equipment	5	2,490,000	2,432,000
Leasehold improvements	Lesser of useful life or term of lease	962,000	845,000
		9,845,000	9,529,000
Accumulated depreciation and amortization		(8,262,000)	(7,868,000)
		\$ 1,583,000	\$ 1,661,000

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Depreciation and amortization related to property, plant and equipment was \$394,000, \$456,000, and \$570,000 for 2010, 2009 and 2008, respectively.

6) OTHER ACCRUED EXPENSES

Other accrued expenses consisted of the following at December 31:

	2010	2009
Research and development costs	\$ 231,000	\$ 92,000
Marketing and sales costs	195,000	418,000
Reserve for sales returns and allowances	125,000	225,000
Other product related costs	798,000	849,000
Legal and other professional fees	308,000	334,000
Due to former Sirius shareholders	232,000	214,000
Employee benefits	298,000	271,000
Other expenses	162,000	54,000
	\$ 2,349,000	\$ 2,457,000

7) INCOME TAXES

The tax effect of significant temporary differences representing deferred tax assets and liabilities at December 31, 2010 and 2009 are as follows:

	2010	2009
DEFERRED TAX ASSETS		
Current		
Reserves	\$ 64,000	\$ 102,000
Accrued Charges	481,000	104,000
Total current deferred tax assets	545,000	206,000
Non-current		
Operating loss carryforwards	32,717,000	33,945,000
Capitalized research and development	5,431,000	6,911,000
Research and development tax credit carryforwards	1,844,000	1,641,000
Deferred revenue	1,024,000	1,498,000
Intangible assets	154,000	191,000
Accrued charges	225,000	157,000
Stock-based compensation	1,557,000	1,674,000
Equipment	782,000	758,000

Total noncurrent deferred tax assets	43,734,000	46,775,000
Net deferred tax assets before allowance	44,279,000	46,981,000
Valuation allowance	(44,279,000)	(46,981,000)
Total	\$	\$

During the years ended December 31, 2010, 2009 and 2008, the change in the valuation allowance was approximately \$(2,702,000), \$177,000, and \$1,923,000, respectively. The reduction of the valuation allowance in 2010 was principally due to the utilization of federal and state net operating loss (NOL) carryforwards, federal and state NOL carryforward expirations and a reduction in the temporary differences for capitalized

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

research and development. During 2010, the Company utilized federal and state net operating loss carryforwards of \$341,000 and \$789,000, respectively, to reduce the current tax provision. The Company had generated net operating loss carryforwards from stock compensation deductions prior to its adoption of Statement of Financial Accounting Standards No. 123R *Share-Based Payment* on January 1, 2006. The amount of federal and state excess tax benefits is \$2,171,000 which will be credited to additional paid-in-capital when realized.

As of December 31, 2010, the Company has Federal net operating loss carryforwards for tax purposes of approximately \$91,504,000 and research and development tax credits of approximately \$1,759,000, both of which, if not utilized, will expire on various dates through 2030 as follows:

	Operating Loss Carryforwards	Research and Development Tax Credits
2011	6,296,000	
2012	6,841,000	
2013		
2014		
2015		
2016		
2017		
2018	5,738,000	
2019		
2020		110,000
2021	3,052,000	288,000
2022	16,018,000	309,000
2023	12,872,000	148,000
2024	10,498,000	196,000
2025	13,425,000	182,000
2026	5,923,000	164,000
2027	5,321,000	25,000
2028	1,024,000	73,000
2029	4,496,000	115,000
2030		149,000
	\$ 91,504,000	\$ 1,759,000

As of December 31, 2010, the Company has state net operating loss carryforwards for tax purposes of approximately \$31,821,000 which expire on various dates beginning in 2011 through 2029.

Based on an Internal Revenue Code (IRC) Section 382 study performed, the Company determined that it has experienced prior ownership changes, as defined under IRC Section 382, with the most recent change in ownership occurring in 2007 (the 2007 Ownership Change). The Company's pre-change NOL carryforwards are subject to an

annual limitation of approximately \$2.2 million per year. Further, additional rules provide for the enhancement of the aforementioned annual limitation for the first five years after the ownership change. A loss corporation may increase its IRC Section 382 limitation by the amount of the net unrealized built-in gain (NUBIG) recognized within five years of the ownership change. The calculated aggregate amount of NUBIG enhancement for the Company is approximately \$4.3 million (i.e., approximately \$868,000 per year for the first five years after the ownership change). This NUBIG enhancement will be utilized in conjunction with the approximately \$2.2 million of IRC Section 382 base annual limitation, resulting in approximately \$3.0 million

Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

per year for the first five years after the ownership change. Based on these additional factors, the Company estimates that it will be able to utilize approximately \$54.3 million of its current net operating losses, provided that sufficient income is generated and no further ownership changes were to occur. However, it is reasonably possible that a future ownership change, which could be the result of transactions involving the Company's common stock that are outside of its control (such as sales by existing shareholders), could occur during 2011 or thereafter. Future ownership changes could further restrict the utilization of the Company's net operating losses and tax credits, reducing or eliminating the benefit of such net operating losses and tax credits. An ownership change occurs under IRC Section 382 if the aggregate stock ownership of certain shareholders increases by more than 50 percentage points over such shareholders' lowest percentage ownership during the testing period, which is generally three years.

A reconciliation between the effective tax rate and the statutory Federal rate is as follows:

	2010	%	2009	%	2008	%
Income tax provision (benefit) at statutory rate	\$ 919,000	34.0	\$ (853,000)	(34.0)	\$ (2,125,000)	(34.0)
State taxes	564,000	20.9	(61,000)	(2.4)	(113,000)	(1.8)
Tax credit carryforwards	(149,000)	(5.5)	(61,000)	(2.4)	(73,000)	(1.2)
Goodwill impairment					510,000	8.2
Warrant valuation adjustment	133,000	4.9	128,000	5.1	(281,000)	(4.5)
Change in valuation allowance including revisions of prior year estimates	(2,761,000)	(102.2)	265,000	10.6	1,923,000	30.8
Federal NOL expirations	797,000	29.5				
Expirations and adjustments of vested, non-qualified stock options	363,000	13.4	303,000	12.1		
Other	134,000	5.0	279,000	11.0	159,000	2.5
Effective tax rate	\$		\$		\$	

As of December 31, 2010 and 2009, the Company's total amount of unrecognized tax benefits was \$1,355,000 and \$1,399,000, respectively, which, if recognized, would affect the effective tax rate prior to the adjustment for the Company's valuation allowance. The Company has not recognized a tax liability for the unrecognized tax benefits because the Company has recorded a tax net operating loss carryforward that would offset this liability.

The change in unrecognized tax benefits for each of the years ended December 31, 2010, 2009 and 2008 is as follows:

	2010	2009	2008
Balance at January 1,	\$ 1,399,000	\$ 1,483,000	\$ 1,739,000
Decrease for tax positions related to prior years			(190,000)
Reductions for expiration of statute of limitations	(44,000)	(84,000)	(66,000)

Balance at December 31,	\$ 1,355,000	\$ 1,399,000	1,483,000
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The Company does not expect substantial changes in its unrecognized tax benefits or positions over the next twelve months.

Tax years ended December 31, 2007, 2008, 2009 and 2010 remain subject to examination by major tax jurisdictions, which are Federal and the Commonwealth of Massachusetts. However, since the Company has net operating loss and tax credit carryforwards which may be utilized in future years to offset taxable income,

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DUSA PHARMACEUTICALS, INC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

the years in which such losses originated may also be subject to review by relevant taxing authorities if utilized.

8) STOCK OPTIONS AND WARRANTS

Common Stock Warrants

On October 29, 2007, the Company sold, through a private placement, 4,581,043 shares of our common stock and warrants to purchase 1,145,259 shares of common stock with an exercise price of \$2.85. The warrants have a 5.5 year term and became exercisable on April 30, 2008. As described in Note 3, the warrants are recorded as a derivative liability at fair value.

On October 18, 2006, the Company's Board of Directors extended the term of 250,000 Class B warrants, originally issued to the Company's Chairman of the Board of Directors and Chief Executive Officer at the time of the Company's initial public offering, for an additional four years to January 29, 2011. These warrants had an exercise price of \$6.00 per share. On January 29, 2011, all 250,000 of the Class B warrants expired.

Share-based Awards

Under the Company's 2006 Equity Compensation Plan (the "2006 Plan"), the Company may grant stock-based awards in amounts not to exceed the lesser of: (i) 20% of the total number of shares of the Company's common stock issued and outstanding at any given time less the number of shares issued and outstanding under any other equity compensation plan of the Company at such time; or (ii) 4,815,690 shares less the number of shares issued and outstanding under any other equity compensation plan of the Company from time to time. The maximum number of shares of common stock that may be granted to any individual during any calendar year is 300,000.

The 2006 Plan is administered by the Compensation Committee of the Board of Directors (the "Committee"). The 2006 Plan provides for the grant of incentive stock options ("ISO"), nonqualified stock options ("NSO"), stock awards, and stock appreciation rights to (i) employees, consultants, and advisors; (ii) the employees, consultants, and advisors of the Company's parents, subsidiaries, and affiliates; and (iii) and the Company's non-employee directors.

Non-Qualified Stock Options All the NSOs granted under the 2006 Plan have an expiration period not exceeding seven years and are issued at a price not less than the market value of the common stock on the grant date. The Committee may establish such vesting and other conditions with respect to options as it deems appropriate. In addition, the Company initially grants each individual who agrees to become a director 15,000 NSO to purchase common stock of the Company. Thereafter, each director reelected at an Annual Meeting of Shareholders will automatically receive an additional 10,000 NSOs on June 30 of each year. Grants to directors immediately vest on the date of the grant.

Incentive Stock Options ISOs granted under the 2006 Plan have an expiration period not exceeding seven years (five years for ISOs granted to employees who are also ten percent shareholders) and are issued at a price not less than the market value of the common stock on the grant date. The Committee may establish such vesting and other conditions with respect to options as it deems appropriate.

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The 2006 Plan replaced the Company's 1996 Omnibus Plan (the "1996 Plan"). A summary of stock option activity in both the 1996 Plan and the 2006 Plan, for 2010 follows:

		Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (Years)	Aggregate Intrinsic Value
Outstanding, beginning of year	2,664,000	\$ 6.71		
Options granted	731,100	\$ 1.75		
Options forfeited	(35,100)	\$ 2.09		
Options expired	(257,650)	\$ 25.25		
Options exercised	(38,300)	\$ 1.63		
Outstanding, end of year	3,064,050	\$ 4.09	4.57	\$ 1,582,000
Exercisable, end of year	1,783,213	\$ 5.87	3.89	\$ 452,000
Options vested and expected to vest, end of year	2,928,329	\$ 4.21	4.51	\$ 1,460,000

A summary of stock options outstanding at December 31, 2010 follows:

Range of Exercise Prices	Outstanding as of December 31, 2010	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price	Exercisable as of December 31, 2010	Weighted Average Exercise Price
\$1.08-\$1.10	62,500	5.47	\$ 1.10	61,250	\$ 1.10
\$1.22	658,900	5.21	\$ 1.22	163,938	\$ 1.22
\$1.27-\$1.65	713,100	5.66	\$ 1.63	106,000	\$ 1.54
\$1.74-\$3.37	731,300	4.05	\$ 2.67	553,775	\$ 2.70
\$3.87-\$17.62	898,250	3.58	\$ 9.51	898,250	\$ 9.51
	3,064,050	4.57	\$ 4.09	1,783,213	\$ 5.87

The total intrinsic value for stock options exercised in 2010, 2009 and 2008 was approximately \$26,000, \$0 and \$1,000, respectively. At December 31, 2010, total unrecognized estimated compensation cost related to non-vested

stock options was \$906,000, which is expected to be recognized over a weighted average period of 2.5 years.

The amount of cash received from the exercise of stock options in 2010, 2009 and 2008 was approximately \$63,000, \$0, and \$4,000, respectively. No tax benefits were realized during this period due to the existence of tax net operating loss carryforwards.

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Unvested shares of common stock During 2010 the Company issued unvested shares of common stock, which vest over 4 years at a rate of 25% per year. The changes in unvested common stock during 2010 are as follows:

Outstanding unvested shares of common stock, beginning of year	393,250
Shares granted	308,000
Shares vested	(115,250)
Outstanding unvested shares of common stock, end of year	586,000
Weighted average grant date fair value of shares vested during year	\$ 1.41
Weighted average grant date fair value of shares granted during year	\$ 1.65
Weighted average grant date fair value of unvested shares, end of year	\$ 1.52
Weighted average remaining years to vest	2.65

At December 31, 2010 total unrecognized estimated compensation cost related to non-vested common shares was \$624,000, which is expected to be recognized over a weighted average period of 2.65 years.

Share-based Compensation

Total share-based compensation expense, related to all of the Company's share-based awards, recognized for the years ended December 31, 2010, 2009 and 2008 is included in the following line items:

	Year Ended December 31,		
	2010	2009	2008
Cost of product revenues	\$ 49,000	\$ 60,000	\$ 77,000
Research and development	123,000	140,000	457,000
Selling and marketing	114,000	110,000	131,000
General and administrative	822,000	491,000	976,000
Share-based compensation expense	\$ 1,108,000	\$ 801,000	\$ 1,641,000

During the third quarter of 2010, the Company modified the terms of stock options and restricted stock awards to three former members of the Company's board of directors. The modifications included both extending the post-termination exercise period for stock options and accelerating the vesting of restricted stock awards. The modification to the restricted stock awards accelerated the vesting on all 11,250 shares of unvested restricted stock. As a result of these modifications, the Company recorded a non-cash charge to earnings of \$176,000 in 2010.

As a result of the departure of one of the Company's officers during the fourth quarter of 2008, the Company accelerated the vesting on all of the former officer's stock options and grants of unvested common stock. As a result of the acceleration of vesting the Company recorded a non-cash charge to earnings of \$286,000 in 2008.

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The weighted-average estimated fair value of employee stock options granted during the years ended December 31, 2010, 2009 and 2008 was \$1.18, \$0.81 and \$1.41 per share, respectively, using the Black-Scholes option valuation model with the following weighted-average assumptions (annualized percentages):

	Year Ended December 31,		
	2010	2009	2008
Volatility	75.5%	73.6%	70.4%
Risk-free interest rate	1.79 - 2.73%	1.87 - 2.54%	2.98 - 3.6%
Expected dividend yield	0%	0%	0%
Expected life-directors and officers	5.9 years	6.0 years	6.3 years
Expected life-non-officer employees	5.6 years	5.8 years	5.9 years

The Company used historical volatility in the Company's stock for the expected volatility assumption input to the Black-Scholes model measured over a look back period commensurate with the expected life of the options. The decision to use historical volatility data to estimate expected volatility was based upon the lack of actively traded options in the Company's stock, and the Company's assessment that historical volatility is the most representative measure of future stock price trends.

The risk-free interest rate assumption is based upon observed interest rates appropriate for the term of the Company's employee stock options. The expected life is based on the Company's historical option cancellation and employee exercise information. The expected life of employee stock options includes the weighted-average period the stock options are expected to remain outstanding post-vesting. In calculating the expected life of the options, the Company classified its grantee population into two groups, directors and officers and non-officer employees. As share-based compensation expense recognized in the Consolidated Statements of Operations is based on awards ultimately expected to vest, it is reduced for estimated forfeitures. Forfeitures are estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. In 2010 and 2009, forfeiture rates were estimated to be approximately 3.35% and 4.2%, respectively, for officers and directors and 9.67% and 9.35%, respectively, for non-officer employees.

9) SIGNIFICANT PRODUCT AGREEMENTS**Stiefel Agreement**

In the third quarter of 2010, the Company gave notice to Stiefel Laboratories, Inc. terminating the parties' Marketing, Distribution and Supply Agreement, dated January 12, 2006, as amended, as of September 26, 2007. The termination of this Agreement, which had appointed Stiefel as the Company's exclusive marketing and distribution partner for the Company's product, the Levula® Kerastick, in Latin America, resulted in the acceleration of the recognition of deferred revenues of \$555,000, comprised of deferred drug shipments of \$87,000 and the unamortized balance of milestone payments of \$468,000, and the acceleration of deferred cost of revenues of \$42,000.

Daewoong Agreement

In January 2008 the Company licensed to Daewoong Pharmaceutical Co., LTD. and its wholly-owned subsidiary DNC Daewoong Derma & Plastic Surgery Network Company, the exclusive rights to market Levulan® PDT in Korea and other Asia Pacific countries for payments by Daewoong of up to \$3,500,000. The Company also manufactures and supplies finished product for Daewoong, which the Company began shipping in October 2008. In consideration for the transaction Daewoong agreed to pay the Company as follows: (i) \$1,000,000 upon contract signing; (ii) \$1,000,000 upon achieving regulatory approval in Korea; and (iii) two installments of \$750,000 each for cumulative end-user sales totaling 200,000 units and 500,000 units. Daewoong launched the product in November 2008 in Korea. The Company is deferring and recognizing the up-front and regulatory approval milestones as license revenues on a straight-line basis, beginning with product launch in the territory through the fourth quarter of 2016, which is the term of the Daewoong Agreement.

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Daewoong pays a fixed price per unit for the inventory and an Excess Purchase Price, as defined in the agreement, if the Average Selling Price to end-users during any calendar quarter exceeds a certain threshold. During the years ended December 31, 2010 and 2009, the Company's shipments of Levulan® Kerastick® to Daewoong were \$0. At December 31, 2010 and December 31, 2009 the total revenues deferred associated with shipments to Daewoong were \$487,000 and \$704,000, respectively, in accordance with the Company's policy of deferring revenues during a product's launch phase and recognizing revenues based on delivery to end users. Deferred revenues at December 31, 2010 and December 31, 2009 associated with milestone payments received from Daewoong were \$1,232,000 and \$1,438,000, respectively. The agreement with Daewoong also establishes a cumulative minimum purchase quantity over the first five years following regulatory approval. If Daewoong fails to meet its minimum purchase quantities, the Company may, in addition to other remedies, at its sole discretion, appoint one or more other distributors in the covered territories, or terminate the agreement.

PhotoCure Agreement

On May 30, 2006, the Company entered into a patent license agreement under which the Company granted PhotoCure ASA a non-exclusive license under the patents the Company licenses from PARTEQ for ALA esters. In addition, the Company granted a non-exclusive license to PhotoCure for its existing formulations of Hexvix® and Metvix® (known in the U.S. as Metvixia®) for any patent the Company owns now or in the future. On October 1, 2009, Photocure announced that it had sold Metvix/Metvixia to Galderma, S.A., a large dermatology company. While we are entitled to royalties on net sales of Metvixia, Galderma has considerably more resources than we have, which could significantly hamper our ability to maintain or increase our market share.

Photocure is obligated to pay the Company royalties on sales of its ester products to the extent they are covered by its patents in the U.S. and certain other territories. As part of the agreement, PhotoCure paid the Company a prepaid royalty in the amount of \$1,000,000 in 2006. Revenues recognized pursuant to the Photocure Agreement have not been material to date. The balance of the prepaid royalty under the Photocure Agreement is included in deferred revenues in the accompanying Consolidated Balance Sheets.

10) RETIREMENT PLAN

The Company has a tax-qualified employee savings and retirement 401(k) Profit Sharing Plan (the "401(k) Plan"), covering all qualified employees. Participants may elect a salary deferral of at least 1% as a contribution to the 401(k) Plan, up to the statutorily prescribed annual limit for tax-deferred contributions. Effective February 1, 2003, the Company matches a participant's contribution up to 1.25% of a participant's salary (the "Match"), subject to certain limitations of the 401(k) Plan. Participants will vest in the Match at a rate of 25% for each year of service to the Company. The Company's matching contributions in 2010, 2009 and 2008 were \$65,000, \$63,000 and \$64,000, respectively.

11) SEGMENT REPORTING

The Company has two reportable operating segments: Photodynamic Therapy (PDT) Drug and Device Products and Non-Photodynamic Therapy (Non-PDT) Drug Products. Operating segments are defined as components of the Company for which separate financial information is available to manage resources and evaluate performance regularly by the chief operating decision maker. The table below presents the revenues, costs of revenues and gross margins attributable to these reportable segments for the periods presented. The

Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

Company does not allocate research and development, selling and marketing and general and administrative expenses to its reportable segments, because these activities are managed at a corporate level.

	Year Ended December 31,		
	2010	2009	2008
REVENUES			
PDT drug & device product revenues	\$ 36,423,000	\$ 28,338,000	\$ 23,930,000
Non-PDT drug product revenues	1,010,000	1,470,000	5,615,000
Total revenues	37,433,000	29,808,000	29,545,000
COSTS OF REVENUES			
PDT drug & device cost of product revenues and royalties	6,271,000	5,735,000	5,352,000
Non-PDT drug cost of product revenues and royalties	1,001,000	940,000	1,773,000
Total costs of revenues	7,272,000	6,675,000	7,125,000
GROSS MARGINS			
PDT drug and device product gross margin	30,152,000	22,603,000	18,578,000
Non-PDT drug product gross margin	9,000	530,000	3,842,000
Total gross margin	\$ 30,161,000	\$ 23,133,000	\$ 22,420,000

During the years ended December 31, 2010, 2009 and 2008, the Company derived revenues from the following geographies based on the location of the customer (as a percentage of product revenues):

	Year Ended December 31,		
	2010	2009	2008
United States	95%	95%	94%
Canada	1%	2%	2%
Korea	1%	2%	3%
Rest of world	3%	1%	1%
Total	100%	100%	100%

12) SETTLEMENTS, NET**2009 Winston Laboratories**

In October 2008, the Company was notified that Winston Laboratories, Inc. (Winston) had filed a demand for arbitration against the Company. The demand for arbitration arose out of the 2006 Micanol License Agreement and

subsequent 2006 Micanol Transition License Agreement (together the Agreement), and claimed that the Company breached the Agreement. Winston claimed damages in excess of \$2.0 million. The matter was settled on April 28, 2009 for cash consideration of \$75,000, and a mutual release.

2008 River s Edge

During the fourth quarter of 2007, the Company entered into a settlement agreement and mutual release relating to litigation with River s Edge. Under the terms of the settlement agreement, River s Edge made a lump-sum payment to us in the amount of \$425,000 for damages and paid to us \$25.00 for every prescription of its product, NIC 750 above 5,000 prescriptions that were substituted for Nicomide® after September 30, 2007. In 2008 the net gain from settlement of the litigation was \$283,000. The payments under the settlement agreement ceased in 2008 when the parties entered into an amendment to the agreement.

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)****13) COMMITMENTS AND CONTINGENCIES****Business Acquisition**

On March 10, 2006, the Company acquired all of the outstanding common stock of Sirius Laboratories, Inc. (Sirius). The Company agreed to pay additional consideration in future periods to the former Sirius shareholders based upon the achievement of total cumulative sales milestones for the Sirius products over the period beginning with the closing of the acquisition and ending December 31, 2011, according to an amendment to the parties' agreement.

If the remaining sales milestones are attained, additional consideration will be paid in either common stock or cash, at the Company's sole discretion. The remaining cumulative sales milestones and related consideration are, as follows:

Cumulative Sales Milestone:	Additional Consideration:
\$35.0 million	\$ 1.0 million
\$45.0 million	\$ 1.0 million
Total	\$ 2.0 million

Third Amendment to Merger Agreement

In April 2009, the Company and the former shareholders of Sirius entered into a letter agreement providing for the consent of the former Sirius shareholders to the Amendment to the License Agreement with River's Edge Pharmaceuticals, LLC, a release, and the Third Amendment to the Merger Agreement, dated as of December 30, 2005, by and among the DUSA Pharmaceuticals, Inc., Sirius and the shareholders of Sirius. Pursuant to the Merger Agreement prior to this amendment, the Company agreed to pay additional consideration after the closing of the merger to the former shareholders of Sirius based upon the attainment of pre-determined total cumulative sales milestones for the products acquired from Sirius over the period ending 50 months from the date of the March 2006 closing of the original Merger Agreement. Pursuant to the agreements entered into in April 2009, the Company agreed to extend the Milestone Termination Date from 50 months from the date of the closing of the original Merger Agreement until December 31, 2011 and to include in the definition of Net Sales in the Merger Agreement payments which the Company may receive from the divestiture of Sirius products. The Third Amendment to the Merger Agreement also removes the Company's obligation to market the Sirius products according to certain previously required standards and allows the Company to manage all business activities relating to the products acquired from Sirius without further approval from the former Sirius shareholders. In April 2009 the Company paid to the former Sirius shareholders, on a pro rata basis, \$100,000. In addition, in the event that the \$1,000,000 milestone payment that would become due to the former Sirius shareholders under the Merger Agreement if cumulative Net Sales of the Sirius products reach \$35,000,000 is not, in fact, triggered by December 31, 2011, then the Company has agreed to pay \$250,000 to the former Sirius shareholders on a pro rata basis on or before January 6, 2012. The present value of the guaranteed \$250,000 milestone payment, or \$232,000, is included in other accrued expenses in the accompanying Consolidated Balance Sheets.

The Company has not accrued amounts for any other potential contingencies as of December 31, 2010.

The Company is involved in legal matters arising in the ordinary course of business. Although the outcome of these matters cannot presently be determined, management does not expect that the resolution of these matters will have a material adverse effect on the Company's financial position or results of operation.

Lease Arrangements

The Company leases its facilities under operating leases. The Company's lease arrangements have terms which expire through 2014. Total rent expense under operating leases was approximately \$386,000, \$398,000

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Table of Contents**DUSA PHARMACEUTICALS, INC.****NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

and \$447,000 for the years ended December 31, 2010, 2009 and 2008, respectively. Future minimum payments under lease arrangements at December 31, 2010 are as follows:

Years Ending December 31,	Operating Lease Obligations
2011	\$ 381,000
2012	389,000
2013	396,000
2014	366,000
Total	\$ 1,532,000

14) SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

	Quarterly Results for Year Ended December 31, 2010			
	March 31	June 30	Sept 30⁽¹⁾	Dec 31
Product revenues	\$ 8,713,880	\$ 8,700,937	\$ 8,015,546	\$ 12,002,635
Gross margin	6,895,695	6,918,829	6,387,764	9,958,933
Net (loss) income	(424,483)	188,194	32,824	2,906,082
Basic and diluted (loss) earnings per common share	\$ (0.02)	\$ 0.01	\$ 0.00	\$ 0.12

	Quarterly Results for Year Ended December 31, 2009			
	March 31	June 30	Sept 30	Dec 31
Product revenues	\$ 7,138,269	\$ 6,965,541	\$ 6,930,110	\$ 8,773,909
Gross margin	5,200,043	5,524,677	5,335,418	7,073,345
Net (loss) income	(1,606,931)	(852,709)	(415,240)	366,588
Basic and diluted (loss) earnings per common share	\$ (0.07)	\$ (0.04)	\$ (0.02)	\$ 0.02

- 1) In the third quarter of 2010, the Company terminated its agreement with Stiefel Laboratories, Inc., formerly the Company's exclusive marketing and distribution partner for its product, the Levula® Kerastick® in Latin America. The termination resulted in the acceleration of the recognition of deferred revenues of \$555,000, and the acceleration of deferred cost of revenues of \$42,000.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.

(Registrant)

DUSA Pharmaceuticals, Inc.

By (Signature and Title)

/s/ Robert F. Doman

President and Chief Executive Officer

Date: March 3, 2011

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

/s/ Robert F. Doman	Director, President and Chief Executive Officer (principal executive officer)	March 3, 2011 Date
Robert F. Doman		
/s/ Richard C. Christopher	Vice President, Finance and Chief Financial Officer (principal financial officer and principal accounting officer)	March 3, 2011 Date
Richard C. Christopher		
/s/ Alfred Altomari	Director	March 3, 2011 Date
Alfred Altomari		
/s/ David Bartash	Vice Chairman of the Board and Lead Director	March 3, 2011 Date
David Bartash		
/s/ Alexander W. Casdin	Director	March 3, 2011 Date
Alexander W. Casdin		
/s/ Jay M. Haft, Esq.	Chairman of the Board and Director	March 3, 2011 Date
Jay M. Haft, Esq.		
/s/ Paul J. Hondros	Director	March 3, 2011 Date

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Paul J. Hondros

/s/ Magnus Moliteus

Director

March 3, 2011
Date

Magnus Moliteus

/s/ David M. Wurzer

Director

March 3, 2011
Date

David M. Wurzer

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EXHIBIT INDEX

- 2(a.1)* Merger Agreement by and among the Registrant, Sirius Laboratories, Inc., and the shareholders of Sirius dated as of December 30, 2005 filed as Exhibit 2(a.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;
- 2(a.2) First Amendment to Merger Agreement by and among the Registrant, Sirius Laboratories, Inc. and the shareholders of Sirius, dated as of February 6, 2006 filed as Exhibit 2(a.2) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;
- 2(a.3) Third Amendment to Merger Agreement by and among the Registrant, Sirius Laboratories, Inc. and the shareholders of Sirius, dated as of April 21, 2009; filed as Exhibit 2(a.3) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, and is incorporated herein by reference;
- 3(a.1) Certificate of Incorporation, as amended, filed as Exhibit 3(a) to the Registrant's Form 10-K for the fiscal year ended December 31, 1998, and is incorporated herein by reference;
- 3(a.2) Certificate of Amendment to the Certificate of Incorporation, as amended, dated October 28, 2002 and filed as Exhibit 99.3 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2002, filed November 12, 2002, and is incorporated herein by reference;
- 3(b) By-laws of the Registrant, filed as Exhibit 3.1 to the Registrant's current report on Form 8-K, filed on November 2, 2007, and is incorporated herein by reference;
- 4(a) Common Stock specimen, filed as Exhibit 4(a) to the Registrant's Form 10-K for the fiscal year ended December 31, 2002, and is incorporated herein by reference;
- 4(b) Form of D. Geoffrey Shulman's Class B Warrant, filed as Exhibit 4(b) to the Registrant's Form 10-K for the fiscal year ended December 31, 2007, and is incorporated herein by reference;
- 4(c) Rights Agreement filed as Exhibit 4.0 to Registrant's Current Report on Form 8-K filed October 11, 2002, and is incorporated herein by reference;
- 4(d) Rights Certificate relating to the rights granted to holders of common stock under the Rights Agreement filed as Exhibit 4.0 to Registrant's Current Report on Form 8-K filed October 11, 2002, and is incorporated herein by reference;
- 4(e) Form of Common Stock Purchase Warrant, dated October 29, 2007 filed as Exhibit 4.2 to the Registrant's Registration Statement on Form S-3, No. 333-147614, and is incorporated herein by reference;
- 4(f) Registration Rights Agreement, dated October 29, 2007, by and between the Registrant and each of the respective selling shareholders named therein filed as Exhibit 4.3 to the Registrant's Registration Statement on Form S-3, No. 333-147614, and is incorporated herein by reference;
- 10(a) License Agreement between the Registrant, PARTEQ and Draxis Health Inc. dated August 27, 1991, filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-1, No. 33-43282, and is incorporated herein by reference;
- 10(b) ALA Assignment Agreement between the Registrant, PARTEQ, and Draxis Health Inc. dated October 7, 1991, filed as Exhibit 10.2 to the Registrant's Registration Statement on Form S-1, No. 33-43282, and is incorporated herein by reference;
- 10(b.1) Amended and Restated Assignment Agreement between the Registrant and Draxis Health, Inc. dated April 16, 1999, filed as Exhibit 10(b.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 1999, and is incorporated herein by reference;
- 10(b.2) Termination and Transfer Agreement between the Registrant and Draxis Health Inc. dated as of February 24, 2004, filed as Exhibit 10(b.2) to the Registrant's Form 10-K for the fiscal year ended December 31, 2003, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;

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- 10(c) Consulting Agreement and General Release of D. Geoffrey Shulman, MD, FRCPC dated as of December 1, 2008, filed as Exhibit 10(d.3) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
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- 10(d) Amended and Restated License Agreement between the Registrant and PARTEQ dated March 11, 1998, filed as Exhibit 10(e) to the Registrant's Form 10-K/A filed on June 18, 1999, portions of Exhibit A have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(e) Incentive Stock Option Plan, filed as Exhibit 10.11 of Registrant's Registration Statement on Form S-1, No. 33-43282, and is incorporated herein by reference;+
- 10(f) 1994 Restricted Stock Option Plan, filed as Exhibit 1 to Registrant's Schedule 14A definitive Proxy Statement dated April 26, 1995, and is incorporated herein by reference;+
- 10(g) 1996 Omnibus Plan, as amended, filed as Appendix A to Registrant's Schedule 14A Definitive Proxy Statement dated April 26, 2001, and is incorporated herein by reference;+
- 10(g.1) 1996 Omnibus Plan, as amended on May 1, 2003, filed as Exhibit 10(h.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2003, and is incorporated herein by reference;+
- 10(g.2) 1996 Omnibus Plan, as amended April 23, 2004, filed as Appendix A to Registrant's Schedule 14A definitive Proxy Statement dated April 28, 2004, and is incorporated herein by reference;+
- 10(h) Purchase and Supply Agreement between the Registrant and National Biological Corporation dated November 5, 1998, filed as Exhibit 10(i) to the Registrant's Form 10-K/A filed on June 18, 1999, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(h.1) Amended and Restated Purchase and Supply Agreement between the Registrant and National Biological Corporation dated as of June 21, 2004 filed as Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2004, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed August 11, 2004, and is incorporated herein by reference;
- 10(i) Supply Agreement between the Registrant and Sochinaz SA dated December 24, 1993, filed as Exhibit 10(q) to Registrant's Form 10-K/A filed on March 21, 2000, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(i.1) First Amendment to Supply Agreement between the Registrant and Sochinaz SA dated July 7, 1994, filed as Exhibit 10(q.1) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1999, and is incorporated herein by reference;
- 10(i.2) Second Amendment to Supply Agreement between the Registrant and Sochinaz SA dated as of June 20, 2000, filed as Exhibit 10.1 to Registrant's Current Report on Form 8-K dated June 28, 2000, and is incorporated herein by reference;
- 10(i.3) Third Amendment to Supply Agreement between the Registrant and Sochinaz SA dated July 29, 2005, filed as Exhibit 10.1 to the Registrant's Form 10-Q filed on August 3, 2005, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(i.4) Fifth Amendment to Supply Agreement between the Registrant and Sochinaz SA dated September 10, 2009, filed as Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2009, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(j) Master Service Agreement between the Registrant and Therapeutics, Inc. dated as of October 4, 2001, filed as Exhibit 10(b) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2001, filed November 8, 2001, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(k)

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License and Development Agreement between the Registrant and photonamic GmbH & Co. KG dated as of December 30, 2002, filed as Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;

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- 10(l) Supply Agreement between the Registrant and medac GmbH dated as of December 30, 2002, filed as Exhibit 10(r) to Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2002, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(m) License and Supply Agreement dated August 7, 2007 among the Registrant, photonamic GmbH & Co. KG and medac, GmbH, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10 to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2007 and is incorporated herein by reference;
- 10(n) Securities Purchase Agreement dated as of February 27, 2004, by and among the Registrant and certain investors, filed as Exhibit 10.1 to the Registrant's current report on Form 8-K, filed on March 2, 2004, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(o) Registration Rights Agreement dated as of February 27, 2004 by and among the Registrant and certain investors, filed as Exhibit 10.2 to the Registrant's current report on Form 8-K, filed on March 2, 2004, and is incorporated herein by reference;
- 10(p) Form of Additional Investment Right dated as of February 27, 2004, filed as Exhibit 10.3 to the Registrant's current report on Form 8-K, filed on March 2, 2004, and is incorporated herein by reference;
- 10(q) License, Promotion, Distribution and Supply Agreement between the Registrant and Coherent-AMT dated as of March 31, 2004 filed as Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2004, filed May 4, 2004, and is incorporated herein by reference;
- 10(r) Employment Agreement of Scott L. Lundahl dated as of June 23, 1999 filed as Exhibit 10(u) to the Registrant's Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference;+
- 10(r.1) Amendment No. 1 to Employment Agreement of Scott Lundahl dated as of April 10, 2008, filed as Exhibit 10(s.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
- 10(s) Amended Employment Agreement of Stuart L. Marcus, MD, PhD dated December 9, 1999 filed as Exhibit 10(v) to the Registrant's Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference;+
- 10(s.1) Amendment No. 2 to Employment Agreement of Stuart L. Marcus, MD, PhD dated as of April 10, 2008, filed as Exhibit 10(t.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
- 10(t) Employment Agreement of Mark C. Carota dated as of February 14, 2000 filed as Exhibit 10(w.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference;+
- 10(t.1) First Amendment to Employment Agreement of Mark C. Carota dated October 31, 2001 filed as Exhibit 10(w.2) to the Registrant's Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference;+
- 10(t.2) Amendment No. 2 to Employment Agreement of Mark C. Carota dated as of April 10, 2008, filed as Exhibit 10(u.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
- 10(u) Amendment to Employment Agreement of Richard Christopher dated as of October 18, 2006 filed as Exhibit 10.A to the Registrant's Form 10-Q for the fiscal quarter ended September 30, 2004, and is incorporated herein by reference;
- 10(v) Employment Agreement of Richard Christopher dated as of January 1, 2004 filed as Exhibit 10(y) to the Registrant's Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference;+

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- 10(v.1) Amendment to Employment Agreement of Richard Christopher dated as of April 10, 2008, filed as Exhibit 10(w.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
- 10(w) Employment Agreement of Robert F. Doman dated as of March 15, 2005 filed as Exhibit 10(z) to the Registrant's Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference;+
- 10(x) First Amendment to Employment Agreement of Robert F. Doman dated November 26, 2008, filed as Exhibit 10(x.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
- 10(aa) Compensation Policy Applicable to the Registrant's Non-Employee Directors filed as Exhibit 10(cc) to the Registrant's Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference;+
- 10(bb) Supply Agreement between Sirius Laboratories, Inc. and Amide Pharmaceuticals, Inc. dated May 18, 2001, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(cc) Amendment and Extension of the Supply Agreement between Sirius Laboratories, Inc. and Amide Pharmaceuticals, Inc. dated February 8, 2006, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(dd) Supply and Development Agreement between Sirius Laboratories, Inc. and Harmony Laboratories dated September 18, 2001, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, and is incorporated herein by reference;
- 10(ee) Amendment and Extension of the Supply and Development Agreement between Sirius Laboratories, Inc. and Harmony Laboratories dated February 16, 2006, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, as filed as Exhibit 10.D to the Registrant's Form 10-Q for the fiscal quarter ended March 31, 2006, and is incorporated herein by reference;
- 10(ff) Second Amendment of the Supply and Development Agreement between Sirius Laboratories, Inc. and Harmony Laboratories dated March 10, 2006, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, as filed as Exhibit 10.E to the Registrant's Form 10-Q for the fiscal quarter ended March 31, 2006, and is incorporated herein by reference;
- 10(gg) Supply Agreement between Sirius Laboratories, Inc. and L. Perrigo Registrant dated October 21, 2005, portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, as filed as Exhibit 10.F to the Registrant's Form 10-Q for the fiscal quarter ended March 31, 2006, and is incorporated herein by reference;
- 10(hh) Employment Agreement of William O. Dell dated as of April 4, 2006 filed as Exhibit 10(ii) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;
- 10(hh.1) Amendment No. 1 to Employment Agreement of William O. Dell dated as of April 10, 2008, filed as Exhibit 10(jj.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
- 10(ii) Patent License Agreement between the Registrant and PhotoCure ASA, dated as of May 30, 2006, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10.A to the Registrant's Form 10-Q for the fiscal quarter ended June 30, 2006, and is incorporated herein by reference;
- 10(jj)

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Separation Agreement between the Registrant and Paul Sowyrda, dated as of August 31, 2006 filed as Exhibit 10(kk) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;

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- 10(kk) Employment Agreement of Michael Todisco dated as of September 20, 2006 filed as Exhibit 10(11) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;
- 10(kk.1) Amendment No. 1 to Employment Agreement of Michael Todisco dated as of April 10, 2008, filed as Exhibit 10(mm.1) to the Registrant's Form 10-K for the fiscal year ended December 31, 2008, and is incorporated herein by reference;+
- 10(ll) Marketing, Distribution and Supply Agreement between the Registrant, Daewoong Pharmaceutical Co., Ltd. and DNC Daewoong Derma & Plastic Surgery Network Registrant dated January 4, 2007, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10(mm) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;
- 10(ll.1) First Amendment to Marketing, Distribution and Supply Agreement between the Registrant, Daewoong Pharmaceutical Co., Ltd. and DNC Daewoong Derma & Plastic Surgery Network Registrant dated January 10, 2007, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10(nn) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;
- 10(mm) DUSA Pharmaceuticals, Inc. 2006 Equity Compensation Plan, filed as Appendix A to Registrant's Schedule 14A definitive Proxy Statement dated April 24, 2006, and is incorporated herein by reference;+
- 10(nn) DUSA Pharmaceuticals, Inc. 2006 Equity Compensation Plan, as amended October 18, 2006 filed as Exhibit 10(pp) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;+
- 10(oo) DUSA Pharmaceuticals, Inc. 2006 Deferred Compensation Plan, October 18, 2006 filed as Exhibit 10(qq) to the Registrant's Form 10-K for the fiscal year ended December 31, 2006, and is incorporated herein by reference;+
- 10(pp) Marketing, Distribution and Supply Agreement between the Registrant and Stiefel Laboratories, Inc., dated as of January 12, 2006, portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10(aa) to the Registrant's Form 10-K for the fiscal year ended December 31, 2005, and is incorporated herein by reference;
- 10(pp.1) Amendment to the Marketing, Distribution and Supply Agreement dated September 26, 2007, between the Registrant and Stiefel Laboratories, Inc. portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10(a) to the Registrant's Form 10-Q for the fiscal quarter ended September 30, 2007, and is incorporated herein by reference;
- 10(qq) Securities Purchase Agreement, dated October 29, 2007, by and among the Registrant and each of the selling shareholders named therein portions of which have been omitted pursuant to a request for confidential treatment pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10.1 to the Registrant's Registration Statement on Form S-3, No. 333-147614, and is incorporated herein by reference;
- 10(rr) Settlement Agreement and Mutual Release, including License Agreement dated October 28, 2007 between Registrant and River's Edge Pharmaceuticals LLC, filed as Exhibit 10(tt) to the Registrant's Form 10-K for the fiscal year ended December 31, 2007, and is incorporated herein by reference;
- 10(ss) Letter Agreement between Registrant and the representatives of Sirius Laboratories, Inc. dated April 3, 2009, filed as Exhibit 10(a) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, and is incorporated herein by reference;
- 10(ss.1) Letter Agreement between Registrant and the representatives of Sirius Laboratories, Inc. dated April 21, 2009, filed as Exhibit 10(b) to the Registrant's Quarterly Report on Form 10-Q for the fiscal quarter ended

March 31, 2009, and is incorporated herein by reference;

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- 10(tt) License Agreement between the Registrant and River s Edge Pharmaceuticals LLC entered into August 12, 2008 portions of which have been omitted pursuant to a request for confidential treatment under Rule 24b-2 of the Securities Exchange Act of 1934, as amended, filed as Exhibit 10(a) to the Registrant s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 2008, and is incorporated herein by reference; and
- 10(uu) Amendment to License Agreement between Registrant and River s Edge Pharmaceuticals, LLC entered into April 21, 2009, filed as Exhibit 10(c) to the Registrant s Quarterly Report on Form 10-Q for the fiscal quarter ended March 31, 2009, and is incorporated herein by reference.
- 14(a) Form of DUSA Pharmaceuticals, Inc. Code of Ethics Applicable to Senior Officers, filed as Exhibit 14(a) to the Registrant s Form 10-K for the fiscal year ended December 31, 2004, and is incorporated herein by reference
- 21(a) Subsidiaries of the Registrant.
- 23(a) Consent of Independent Registered Public Accounting Firm.
- 31(a) Rule 13a-14(a)/15d-14(a) Certification of the Chief Executive Officer; and
- 31(b) Rule 13a-14(a)/15d-14(a) Certification of the Chief Financial Officer.
- 32(a) Certification of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002; and
- 32(b) Certification of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 99.1 Press Release dated March 3, 2011.

+ Management contract or compensatory plan or arrangement.

* Schedules and exhibits omitted pursuant to Item 601(b)(2) of Regulation S-K. The Registrant agrees to furnish supplementally a copy of any omitted schedule or exhibit to the Commission upon request.