DUSA PHARMACEUTICALS INC
Form 10-Q
May 11, 2010

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended: March 31, 2010

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

For the transition period from _____ to _____

Commission file number: 001-31533

DUSA PHARMACEUTICALS, INC.

(Exact Name of Registrant as Specified in Its Charter)

New Jersey	22-3103129
(State of Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
25 Upton Drive, Wilmington, MA	01887
(Address of Principal Executive Offices)	(Zip Code)

(978) 657-7500
(Registrant s Telephone Number, Including Area Code)
(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes o No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

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

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

As of May 5, 2010, the registrant had 24,173,096 shares of Common Stock, no par value per share, outstanding.

DUSA PHARMACEUTICALS, INC.
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PART I.

ITEM 1. FINANCIAL STATEMENTS
DUSA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

	March 31, 2010	December 31, 2009
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 8,541,965	$ 7,613,378
Marketable securities	9,019,112	9,055,959
Accounts receivable, net of allowance for doubtful accounts of $79,000 and $86,000 in 2010 and 2009, respectively	2,059,100	2,629,189
Inventory	1,946,592	2,170,275
Prepaid and other current assets	1,191,080	1,561,467
TOTAL CURRENT ASSETS	22,757,849	23,030,268
Restricted cash	174,346	174,255
Property, plant and equipment, net	1,586,323	1,660,755
Deferred charges and other assets	68,099	68,099
TOTAL ASSETS	$ 24,586,617	$ 24,933,377
LIABILITIES AND SHAREHOLDERS EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 965,347	$ 630,144
Accrued compensation	736,704	1,260,609
Other accrued expenses	2,549,852	2,456,612
Deferred revenue	739,023	902,597
TOTAL CURRENT LIABILITIES	4,990,926	5,249,962
Deferred revenue	2,910,562	2,906,020
Warrant liability	1,012,180	812,905
Other liabilities	108,684	123,016
TOTAL LIABILITIES	9,022,352	9,091,903
COMMITMENTS AND CONTINGENCIES (NOTE 13)		
SHAREHOLDERS EQUITY		
Capital Stock Authorized: 100,000,000 shares; 40,000,000 shares designated as common stock, no par, and 60,000,000 shares issuable in series or classes; and 40,000 junior Series A preferred shares. Issued and outstanding: 24,173,096 and 24,108,908 shares of common shares, no par,	151,747,588	151,683,399

at March 31, 2010 and December 31, 2009, respectively		
Additional paid-in capital	8,409,025	8,291,805
Accumulated deficit	(144,783,700)	(144,359,217)
Accumulated other comprehensive income	191,352	225,487
TOTAL SHAREHOLDERS EQUITY	15,564,265	15,841,474
TOTAL LIABILITIES AND SHAREHOLDERS EQUITY	$ 24,586,617	$ 24,933,377

See the accompanying Notes to the Condensed Consolidated Financial Statements.

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DUSA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS (UNAUDITED)

	Three Months Ended March 31,	
	2010	2009
Product revenues	$ 8,713,880	$ 7,138,269
Cost of product revenues and royalties	1,818,185	1,938,226
GROSS MARGIN	6,895,695	5,200,043
Operating costs		
Research and development	1,109,667	1,185,095
Marketing and sales	3,613,799	3,410,104
General and administrative	2,463,164	2,141,450
TOTAL OPERATING COSTS	7,186,630	6,736,649
LOSS FROM OPERATIONS	(290,935)	(1,536,606)
Loss on change in fair value of warrants	(199,275)	(134,912)
Other income	65,727	64,587
NET LOSS	$ (424,483)	$ (1,606,931)
BASIC AND DILUTED NET LOSS PER COMMON SHARE	$ (0.02)	$ (0.07)
WEIGHTED AVERAGE NUMBER OF COMMON SHARES OUTSTANDING, BASIC AND DILUTED	24,122,459	24,089,452

See the accompanying Notes to the Condensed Consolidated Financial Statements.

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DUSA PHARMACEUTICALS, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Three months ended March 31,	
	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES		
Net loss	$ (424,483)	$ (1,606,931)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Accretion of premiums and discounts on marketable securities	2,712	2,189
Realized loss on sales of marketable securities		36,822
Share-based compensation	211,777	199,127
Depreciation and amortization	102,986	125,393
Loss on change in fair value of warrants	199,275	134,912
Deferred revenues recognized	(158,356)	(234,905)
Changes in other assets and liabilities impacting cash flows from operations:		
Accounts receivable	570,089	243,409
Inventory	223,683	276,497
Prepaid and other current assets	370,387	502,299
Accounts payable, accrued compensation and other accrued expenses	(95,462)	(503,197)
Deferred revenues	(676)	(2,447)
Other liabilities	(14,332)	(14,012)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	987,600	(840,844)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of marketable securities		(5,994,220)
Proceeds from maturities and sales of marketable securities		6,648,159
Restricted cash	(91)	(132)
Purchases of property, plant and equipment	(28,554)	(22,812)
NET CASH (USED IN) PROVIDED BY INVESTING ACTIVITIES	(28,645)	630,995
CASH FLOWS FROM FINANCING ACTIVITIES		
Settlements of restricted stock for tax withholding obligations	(30,368)	
NET CASH USED IN FINANCING ACTIVITIES	(30,368)	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	928,587	(209,849)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	7,613,378	3,880,673

CASH AND CASH EQUIVALENTS AT END OF PERIOD	$ 8,541,965	$ 3,670,824

See the accompanying Notes to the Condensed Consolidated Financial Statements.

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DUSA PHARMACEUTICALS, INC.
NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1) BASIS OF PRESENTATION

The Condensed Consolidated Balance Sheet as of March 31, 2010, and the Condensed Consolidated Statements of Operations and Cash Flows for the three-month periods ended March 31, 2010 and 2009 of DUSA Pharmaceuticals, Inc. (the Company or DUSA) have been prepared in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP). These condensed consolidated financial statements are unaudited but include all normal recurring adjustments, which management of the Company believes to be necessary for fair presentation of the periods presented. The results of the Company s operations for any interim period are not necessarily indicative of the results of the Company s operations for any other interim period or for a full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted. These condensed consolidated financial statements should be read in conjunction with the Consolidated Financial Statements and Notes to the Consolidated Financial Statements included in our Annual Report on Form 10-K for the year ended December 31, 2009 filed with the Securities and Exchange Commission. The balance sheet as of December 31, 2009 has been derived from the audited financial statements at that date but does not include all of the information and footnotes required by U.S. GAAP for complete financial statements.

2) NEW ACCOUNTING PRONOUNCEMENTS

In October 2009, the FASB issued Accounting Standards Update (ASU) No. 2009-13, *Multiple-Deliverable Revenue Arrangements* (ASU No. 2009-13). ASU No. 2009-13, which amends existing revenue recognition accounting pronouncements, 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 no later than January 1, 2011. Early adoption is permitted; however, adoption of this guidance as of a date other than January 1, 2011 will require the Company to apply this guidance retrospectively effective as of January 1, 2010 and will require disclosure of the effect of this guidance as applied to all previously reported interim periods in the fiscal year of adoption. The potential impact of this standard is being evaluated.

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.

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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 March 31, 2010		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets				
Cash and cash equivalents	$ 8,542,000	$ 8,542,000		
United States government-backed securities	8,116,000		$ 8,116,000	
Corporate securities	903,000		903,000	
Total assets at fair value	17,561,000	8,542,000	9,019,000	
Liabilities				
Warrant liability	1,012,000			$ 1,012,000
Total liabilities at fair value	$ 1,012,000	$	$	$ 1,012,000

		Fair Value Measurements at December 31, 2009		
	Carrying Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (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 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 March 31, 2010 compared to December 31, 2009 and determined that there were no significant transfers between levels in the three months ended March 31, 2010.

The table below includes a rollforward of the balance sheet amounts for the three-month period ended March 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.

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Three-Month Period Ended March 31, 2010

	Fair Value at January 1, 2010	Total Unrealized Loss	Purchases, Sales, Issuances, Settlements, net	Transfers In and/or Out of Level 3	Fair Value at March 31, 2010	Change in Unrealized Gains Related to Financial Instruments Held at March 31, 2010
Warrant Liability	$ 813,000	$ 199,000	$	$	$ 1,012,000	$ (199,000)

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)
Three-Month Period Ended March 31, 2009

	Fair Value at January 1, 2009	Total Unrealized Loss	Purchases, Sales, Issuances, Settlements, net	Transfers In and/or Out of Level 3	Fair Value at March 31, 2009	Change in Unrealized Gains Related to Financial Instruments Held at March 31, 2009
Warrant Liability	$ 436,000	$ 135,000	$	$	$ 571,000	$ (135,000)

Marketable Securities

The Company s marketable securities consist of the following:

	March 31, 2010			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
United States government-backed securities	$ 7,998,000	$ 118,000	$	$ 8,116,000
Corporate securities	829,000	74,000		903,000
Total marketable securities	$ 8,827,000	$ 192,000	$	$ 9,019,000

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 securities	825,000	81,000		906,000
Total marketable securities	$ 8,830,000	$ 226,000	$	$ 9,056,000

The Company records other-than-temporary impairment charges for investments that are in an unrealized loss position at the end of the period since the Company s portfolio is managed by a third-party investment advisor that has discretionary authority to sell the investments. The other-than-temporary impairment charge was $0 and $41,000 for the three-month periods ended March 31, 2010 and 2009, respectively, and is included in other income, net in the accompanying Consolidated Statements of Operations. 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 in net unrealized gains on such securities for the three-month periods ended March 31, 2010 and 2009 was $34,000 and $70,000, respectively, which has been recorded in accumulated other comprehensive income and is reported as part of shareholders equity in the Condensed Consolidated Balance Sheets. Realized losses on sales of marketable securities were $0 and $37,000 for the three-month periods ended March 31, 2010 and 2009, respectively. As of March 31, 2010, current yields range from 0.76% to 5.99% and maturity dates range from April 2010 to January 2013.

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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 Condensed Consolidated Statements of Operations as gain or loss on fair value of warrants. For the three-month periods ended March 31, 2010 and 2009, non-cash losses were $199,000 and $135,000, respectively. At March 31, 2010 and December 31, 2009, the aggregate fair value of these warrants was $1,012,000 and $813,000, respectively. Assumptions used for the Black-Scholes option-pricing models in determining the fair value as of March 31, 2010 and December 31, 2009 are as follows:

	March 31, 2010	**December, 31 2009**
Expected volatility	89.8%	88.0%
Remaining contractual term (years)	3.1	3.3
Risk-free interest rate	1.6%	1.9%
Expected dividend yield	0%	0%
Common stock price	$ 1.83	$ 1.60

4) 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 is also exposed to concentration of credit risk related to accounts receivable that are generated from its distributors and customers. To manage credit risk, the Company performs regular credit evaluations of its customers and provides allowances for potential credit losses, when applicable. Concentrations in the Company s total revenues for the three-months ended March 31, 2010 and 2010, and accounts receivable as of March 31, 2010 and December 31, 2010 are as follows:

	% of revenue three months ended		% of accounts receivable	
	March 31, 2010	March 31, 2009	March 31, 2010	December 31, 2009
Customer A	3%	3%	5%	3%
Customer B	2%	2%	6%	5%
Research and development	133,390	81,502	292,183	148,435
Sales and marketing	59,132	117,017	142,440	240,046
General and administrative	401,423	386,626	855,798	829,200
Total operating expenses	593,945	585,145	1,290,421	1,217,681
Operating loss	(260,012)	(391,527)	(714,289)	(785,342)
Other income (expenses)				
Interest income	2	76	23	112
Interest expense	(165,239)	(145,693)	(325,781)	(282,065)
Loss on sale of assets	-	-	-	(1,626)
Amortization of deferred financing costs	(11,430)	-	(26,754)	-
Total other income (expenses)	(176,667)	(145,617)	(352,512)	(283,579)
Net Loss	$(436,679)	$(537,144)	$(1,066,801)	$ (1,068,921)

Basic and diluted net loss per common share	$(0.01)	$(0.01)	$(0.02)	$ (0.02)
Basic and diluted weighted average common shares used to calculate net loss per common share	69,679,854	69,679,854	69,679,854	69,679,854

See accompanying notes.

BioLife Solutions, Inc.

Statements of Cash Flows
(unaudited)

	Six-month Period Ended June 30,	
	2011	2010
Cash flows from operating activities		
Net loss	$(1,066,801)	$(1,068,921)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	46,193	27,753
Loss on disposal of property and equipment	-	1,626
Share-based compensation expense	131,870	79,221
Amortization of deferred financing costs	26,754	-
Change in operating assets and liabilities		
(Increase) Decrease in		
Accounts receivable, trade	(56,425)	30,124
Inventories	(99,086)	(174,212)
Prepaid expenses and other current assets	(4,153)	6,368
Increase (Decrease) in		
Accounts payable	229,995	150,446
Accrued expenses and compensation	(67,923)	17,990
Accrued interest, related parties	325,781	282,065
Deferred revenue	(10,000)	(10,000)
Net cash used in operating activities	(543,795)	(657,540)
Cash flows from investing activity		
Purchase of property and equipment	(43,271)	(13,730)
Net cash used in investing activity	(43,271)	(13,730)
Cash flows from financing activity		
Proceeds from promissory notes payable, related parties	620,000	600,000
Net cash provided by financing activity	620,000	600,000
Net increase (decrease) in cash and cash equivalents	32,934	(71,270)
Cash and cash equivalents - beginning of period	3,211	139,151
Cash and cash equivalents - end of period	$36,145	$67,881

See accompanying notes.

BioLife Solutions, Inc.
Notes to Financial Statements
(unaudited)

1. Nature of the Business

BioLife Solutions, Inc. ("BioLife," "us," "we," "our," or the "Company") develops and markets patented hypothermic storag and cryopreservation solutions for cells, tissues, and organs, and provides contracted research and development and consulting services related to the optimization of biopreservation processes and protocols. Our proprietary HypoThermosol®, CryoStor®, and generic BloodStor® biopreservation media products are marketed to cell therapy companies, pharmaceutical companies, cord blood banks, hair transplant surgeons, and suppliers of cells to the toxicology testing and diagnostic markets. All of our products are serum-free and protein-free, fully defined, and are manufactured under current Good Manufacturing Practices using United States Pharmacopeia ("USP") or the highest available grade components.

2. Financial Condition and Going Concern

We have been unable to generate sufficient income from operations in order to meet our operating needs and have an accumulated deficit of approximately $53 million at June 30, 2011. This raises substantial doubt about our ability to continue as a going concern.

At June 30, 2011, we had cash and cash equivalents of $36,145, compared to cash and cash equivalents of $3,211 at December 31, 2010. At June 30, 2011, we had working capital of $504,797, compared to working capital of $474,271 at December 31, 2010.

During the six-months ended June 30, 2011, net cash used in operating activities was $543,795 as compared to net cash used by operating activities of $657,540 for the six-months ended June 30, 2010. Cash used in operating activities relates primarily to funding net losses offset by changes in operating assets and liabilities and non-cash expenses related to stock options and depreciation.

Net cash used in investing activities totaled $43,271 during the six-months ended June 30, 2011, and $13,730 during the six-months ended June 30, 2010. Cash used in investing activities is due to purchase of property and equipment.

Net cash provided by financing activities totaled $620,000 for the six-months ended June 30, 2011, and $600,000 for the six-months ended June 30, 2010. Cash provided by financing activities is the result of additional funding from the Secured Multi-Draw Term Loan Facility Agreements (the "Facility Agreements") with two shareholders, Thomas Girschweiler, a director and stockholder of the Company, and Walter Villiger, an affiliate of the Company.

We believe that continued access to the Facility Agreements, in combination with cash generated from customer collections, will provide sufficient funds through December 31, 2011. However, we would require additional capital in the immediate short term if our ability to draw on the Facility Agreements is restricted or terminated. Other factors that would negatively impact our ability to finance our operations include (a) significant reductions in revenue from our internal projections, (b) increased capital expenditures, (c) significant increases in cost of goods and operating expenses, or (d) an adverse outcome resulting from current litigation. We expect that we may need additional capital to reach a sustainable level of positive cash flow. Although the investors who have provided the Facility Agreements historically have demonstrated a willingness to grant access to the Facility Agreements and renegotiate terms of previous credit arrangements there is no assurance they will continue to do so in the future. If the investors were to become unwilling to provide access to additional funds through the Facility Agreements, we would need to find immediate additional sources of capital. There can be no assurance that such capital would be available at all, or, if

available, that the terms of such financing would not be dilutive to stockholders. If we are unable to secure additional capital as circumstances require, we may not be able to continue our operations.

These financial statements assume that we will continue as a going concern. If we are unable to continue as a going concern, we may be unable to realize our assets and discharge our liabilities in the normal course of business. The financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts nor to amounts and classification of liabilities that may be necessary should we be unable to continue as a going concern.

3. Summary of Significant Accounting Policies

Basis of Presentation

We have prepared the accompanying unaudited Financial Statements pursuant to the rules and regulations of the Securities and Exchange Commission (the "SEC"). Pursuant to these rules and regulations, we have condensed or omitted certain information and footnote disclosures we normally include in our annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). In management's opinion, we have made all adjustments (consisting only of normal, recurring adjustments) necessary to fairly present our financial position, results of operations and cash flows. Our interim period operating results do not necessarily indicate the results that may be expected for any other interim period or for the full year. These financial statements and accompanying notes should be read in conjunction with the financial statements and notes thereto in our Annual Report on Form 10-K for the year ended December 31, 2010 on file with the SEC.

There have been no material changes to our significant accounting policies as compared to the significant accounting policies described in the financial statements in our Annual Report on Form 10-K for the year ended December 31, 2010.

Fair value of financial instruments

We generally have the following financial instruments: cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. The carrying value of cash and cash equivalents, accounts receivable, accounts payable and accrued expenses approximate their fair value based on the short-term nature of these financial instruments. The carrying values of notes payable approximate their fair value because interest rates of notes payable approximate market interest rates.

Recent Accounting Pronouncements

There have been no new accounting pronouncements during the six-months ended June 30, 2011, as compared to the recent accounting pronouncements described in our Annual Report on Form 10-K for the year ended December 31, 2010, that are of significance, or potential significance, to us.

4. Inventory

	June 30, 2011	December 31, 2010
Product, Finished Goods	$263,245	$143,338
Product, Work in Progress	73,817	45,277
Raw Materials	172,510	221,871
Total Inventory	$509,572	$410,486

5. Share-based Compensation

The fair value of share-based payments made to employees and non-employee directors was estimated on the measurement date using the Black-Scholes model using the following weighted average assumptions:

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2011	2010	2011	2010
Risk free interest rate	-	2.26%	2.25%	2.22%
Dividend yield	-	0.0%	0.0%	0.0%
Expected term (in years)	-	7	6.0	6.8
Volatility	-	89.18%	93.0%	87.76%

Management applies an estimated forfeiture rate that is derived from historical employee termination data. The estimated forfeiture rate applied for the three months ended June 30, 2011 and 2010 was 9.37% and 7.45%, respectively.

A summary of the Company’s stock option activity and related information for the six-months ended June 30, 2011 is as follows:

	Shares	Wgtd. Avg. Exercise Price

Outstanding at December 31, 2010	14,564,815	$0.09
Granted	5,570,873	0.08
Exercised	-	-
Forfeited/expired	(2,852,579)	0.08
Outstanding at June 30, 2011	17,283,109	$0.09
Outstanding options vested and exercisable at June 30, 2011	9,971,841	$0.09

During the six-months ended June 30, 2011, options to purchase an aggregate of 750,000 shares were awarded to five outside directors which vest 100% on the first anniversary date of the awards. During the six-months ended June 30, 2011, options to purchase 2,172,934 shares were awarded to employees, which vest as follows: twenty-five percent on the first anniversary date of the award, and then one-thirty sixth of the remaining balance in each of the ensuing thirty-six months following the first anniversary date of the award. During the six-months ended June 30, 2011, options to purchase 400,000 shares were awarded to the CEO, which vested 100% upon grant of the awards, and options to purchase 2,247,939 shares were awarded to the CEO, which vest at the end of the quarter the Company achieves certain milestones.

We recorded stock compensation expense of $53,242 and $42,614 for the three months ended June 30, 2011 and 2010, respectively, and $131,870 and $79,221 for the six months ended June 30, 2011 and 2010, respectively, as follows:

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2011	2010	2011	2010
Research and development costs	$ 7,693	$ -	$ 18,126	$ -
Sales and marketing costs	663	-	1,525	-
General and administrative costs	42,406	42,614	103,099	79,221
Cost of goods sold	2,480	-	9,120	-
Total	$ 53,242	$ 42,614	$ 131,870	$ 79,221

As of June 30, 2011, we had approximately $465,340 of unrecognized compensation expense related to unvested stock options. We expect to recognize this compensation expense over a weighted average period of approximately 2.25 years.

There were no options granted during the quarter ended June 30, 2011. The weighted average grant-date fair value of option awards granted was $0.07 per share during the three months ended June 30, 2010. The weighted average grant-date fair value of option awards granted was $0.06 and $0.08 per share during the six-months ended June 30, 2011 and 2010, respectively.

As of June 30, 2011, there was $36,500 of aggregate intrinsic value of outstanding stock options, including $28,000 of aggregate intrinsic value of exercisable stock options. Intrinsic value is the total pretax intrinsic value for all “in-the-money” options (i.e., the difference between the Company’s closing stock price on the last trading day of June 2011 and the exercise price, multiplied by the number of shares) that would have been received by the option holders had all option holders exercised their options as of June 30, 2011. This amount may change, based on the fair market value of the Company’s stock.

6. Warrants

At June 30, 2011, the Company had 4,218,750 warrants outstanding and exercisable with a weighted average exercise price of $0.10. There were no warrants issued, exercised or forfeited in the six-months ended June 30, 2011. The outstanding warrants have expiration dates between May 2012 and November 2015.

During the three and six months ended June 30, 2011, the Company recorded $11,430 and $26,754, respectively, in amortization of deferred financing costs related to warrants granted in 2010 in conjunction with the restructuring of outstanding notes. The warrants were valued using the Black-Scholes option pricing model resulting in a total value of $97,220 which was recorded as Deferred financing costs in 2010 and is being amortized to expense over the term of the notes.

7. Net Loss per Common Share

Basic net loss per common share is calculated by dividing the net loss by the weighted average number of common shares outstanding during the period. Diluted earnings per share is calculated using the weighted average number of common shares outstanding plus dilutive common stock equivalents outstanding during the period. Common stock equivalents are excluded for the periods ended June 30, 2011 and 2010, since the effect is anti-dilutive due to the

Company's net losses. Common stock equivalents include stock options and warrants.

Basic weighted average common shares outstanding, and the potentially dilutive securities excluded from loss per share computations because they are anti-dilutive, are as follows for the periods ended June 30, 2011 and 2010, respectively:

	Period Ended June 30,	
	2011	2010
Basic and diluted weighted average common stock shares outstanding	69,679,854	69,679,854
Potentially dilutive securities excluded from loss per share computations:		
Common stock options	17,283,109	14,589,815
Common stock purchase warrants	4,218,750	2,218,750

8. Related Party Transactions

We incurred legal fees for services provided by a law firm in which a director and stockholder of the Company is a partner totaling $6,903 and $18,885 for the three and six months ended June 30, 2011, respectively, and $3,929 and $16,685 for the three and six months ended June 30, 2010, respectively. Pursuant to a consulting agreement for services provided by a director and stockholder of the Company, we incurred $24,000 and $48,000 in consulting fees during the three and six months ended June 30, 2011, respectively, and $24,000 and $48,000 during the three and six months ended June 30, 2010, respectively.

Included in accounts payable are $10,903 and $149 due to related parties for services rendered as of June 30, 2011 and December 31, 2010, respectively.

9. Subsequent Event

Subsequent to June 30, 2011, we received an additional $250,000 in total from Messrs. Girschweiler and Villiger pursuant to the Facility Agreements.

In August 2011, each of the Facility Agreements was amended to increase the amount available to borrow thereunder by $500,000. In connection with this amendment, the Company issued warrants to purchase 1,000,000 shares of the Company’s common stock, at $0.08 per share, to each of Messrs. Girschweiler and Villiger.

10. Contingencies

Legal Proceedings

The Company is a party in seven legal matters filed in the state of New York by the Company or John G. Baust, the Company’s former Chief Executive Officer, and members of his extended family, that are described more fully in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010. During the six months ended June 30, 2011, there were no significant developments related to these complaints. The Company has not made any accrual related to future litigation outcomes as of June 30, 2011 and December 31, 2010.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The statements contained in this Quarterly Report on Form 10-Q, including under the section titled "Management's Discussion and Analysis of Financial Condition and Results of Operations," include forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, including, without limitation, statements regarding the Company management's expectations, hopes, beliefs, intentions or strategies regarding the future. The words "believe," "may," "will," "estimate," "continue," "anticipate," "intend," "expect," "plan" and similar expressions may identify forward-looking statements, but t absence of these words does not mean that a statement is not forward-looking. The forward-looking statements contained in this Quarterly Report on Form 10-Q are based on the Company's current expectations and beliefs concerning future developments and their potential effects on the Company. There can be no assurance that future developments affecting the Company will be those that it has anticipated. These forward-looking statements involve a number of risks, uncertainties or other assumptions that may cause actual results or performance to be materially different from those expressed or implied by these forward-looking statements. These risks and uncertainties include those factors described in greater detail in the risk factors disclosed in our Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission. Should one or more of these risks or uncertainties materialize, or should any of our assumptions prove incorrect, actual results may vary in material respects from those anticipated in these forward-looking statements. The Company undertakes no obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required under applicable securities laws.

Overview

Management's discussion and analysis provides additional insight into the Company and is provided as a supplement to, and should be read in conjunction with, our annual report on Form 10-K for the fiscal year ended December 31, 2010 filed with the Securities and Exchange Commission.

Our proprietary HypoThermosol®, CryoStor®, and generic BloodStor® biopreservation media products are marketed to cell therapy companies, pharmaceutical companies, cord blood banks, hair transplant surgeons, and suppliers of cells to the toxicology testing and diagnostic markets. All of our products are serum-free and protein-free, fully defined, and are manufactured under current Good Manufacturing Practices using United States Pharmacopeia ("USP") or the highest available grade components.

Our product line of serum-free and protein-free biopreservation media products are fully defined and formulated to reduce preservation-induced, delayed-onset cell damage and death. This platform enabling technology provides academic and clinical researchers significant extension in biologic source material shelf life and also improved post-thaw cell, tissue, and organ viability and function.

The discoveries made by our scientists and consultants relate to how cells, tissues, and organs respond to the stress of hypothermic storage, cryopreservation, and the thawing process, and enables the formulation of truly innovative biopreservation media products that protect biologic material from preservation related cellular injury, much of which is not apparent immediately post-thaw. Our enabling technology provides significant improvement in post-preservation viability and function of biologic material. This yield improvement can reduce research, development, and commercialization costs of new cell and tissue based clinical therapies.

Liquidity, Going Concern and Capital Resources

Liquidity

We have been unable to generate sufficient income from operations in order to meet our operating needs and have an accumulated deficit of approximately $53 million at June 30, 2011. This raises substantial doubt about our ability to continue as a going concern.

At June 30, 2011, we had cash and cash equivalents of $36,145, compared to cash and cash equivalents of $3,211 at December 31, 2010. At June 30, 2011, we had working capital of $504,797, compared to working capital of $474,271 at December 31, 2010.

During the six-months ended June 30, 2011, net cash used in operating activities was $543,795 as compared to net cash used by operating activities of $657,540 for the six-months ended June 30, 2010. Cash used in operating activities relates primarily to funding net losses offset by changes in operating assets and liabilities and non-cash expenses related to stock options and depreciation.

Net cash used in investing activities totaled $43,271 during the six-months ended June 30, 2011, and $13,730 during the six-months ended June 30, 2010. Cash used in investing activities is due to purchase of property and equipment.

Net cash provided by financing activities totaled $620,000 for the six-months ended June 30, 2011, and $600,000 for the six-months ended June 30, 2010. Cash provided by financing activities is the result of additional funding from the Secured Multi-Draw Term Loan Facility Agreements (the “Facility Agreements”) with two shareholders, Thomas Girschweiler, a director and stockholder of the Company, and Walter Villiger, an affiliate of the Company.

In August 2011, each of the Facility Agreements was amended to increase the amount available to borrow thereunder by $500,000.

We believe that continued access to the Facility Agreements, in combination with cash generated from customer collections, will provide sufficient funds through December 30, 2011. However, we would require additional capital in the immediate short term if our ability to draw on the Facility Agreements is restricted or terminated. Other factors that would negatively impact our ability to finance our operations include (a) significant reductions in revenue from our internal projections, (b) increased capital expenditures, (c) significant increases in cost of goods and operating expenses, or (d) an adverse outcome resulting from current litigation. We expect that we may need additional capital to reach a sustainable level of positive cash flow. Although the investors who have provided the Facility Agreements historically have demonstrated a willingness to grant access to the Facility Agreements and renegotiate terms of previous credit arrangements there is no assurance they will continue to do so in the future. If the investors were to become unwilling to provide access to additional funds through the Facility Agreements, we would need to find immediate additional sources of capital. There can be no assurance that such capital would be available at all, or, if available, that the terms of such financing would not be dilutive to stockholders. If we are unable to secure additional capital as circumstances require, we may not be able to continue our operations.

Critical Accounting Policies and Significant Judgments and Estimates

Management's discussion and analysis of our financial condition and results of operations is based on our financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting. The preparation of financial statements requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and reported revenues and expenses during the reporting periods presented. On an ongoing basis, we evaluate estimates, including those related to share-based compensation and expense accruals. We base our estimates on historical experience and on other factors that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from these estimates under different assumptions or conditions. Our critical accounting policies and estimates have not changed significantly from those policies and estimates disclosed under the heading "Critical Accounting Policies and Significant Judgments and Estimates" under Item 7 in our Form 10-K for the fiscal year ended December 31, 2010, filed with the Securities and Exchange Commission.

Results of Operations

Summary of Achievements for the Second Quarter of 2011

- Recorded record revenue for the fourth sequential quarter
- Continued penetration into our strategic market segments of biobanking, drug discovery, and regenerative medicine
- Significant improvement in gross margin to 54%, driven by improved utilization of manufacturing capacity
- Indirect distribution channel revenue at 25% more than the full year of 2010
- Contract manufacturing revenue increased 40% from the second quarter of 2010
- Continued to fulfill significant contract manufacturing orders for our strategic partners in the blood collection, transportation, and storage sub-segments of the biobanking market

Comparison of Results of Operations for the Three and Six Month Periods Ended June 30, 2011 and June 30, 2010

Percentage comparisons have been omitted within the following table where they are not considered meaningful.

Revenue and Gross Margin

	Three Month Period Ended June 30,			
	2011	2010	Change	% Change
Revenue				
Product sales	$ 617,848	$ 462,771	$ 155,077	34%
Licensing revenue	5,000	5,000	-	-
Total revenue	622,848	467,771	155,077	33%
Cost of sales	288,915	274,153	14,762	5%
Gross profit	$ 333,933	$ 193,618	$ 140,315	72%
Gross margin %	54%	41%		

	Six Month Period Ended June 30,			
	2011	2010	Change	% Change
Revenue				
Product sales	$ 1,223,647	$ 970,680	$ 252,967	26%
Licensing revenue	10,000	10,000	-	-
Total revenue	1,233,647	980,680	252,967	26%
Cost of sales	657,515	548,341	109,174	20%
Gross profit	$ 576,132	$ 432,339	$ 143,793	33%
Gross margin %	47%	44%		

Product Sales and Cost of Sales. Product sales for the three and six months ended June 30, 2011 increased compared to the three and six months ended June 30, 2010 primarily due to significantly higher sales to our network of distributors in 2011. Sales to distributors in the six months ended June 30, 2011 exceeded sales to distributors for the year ended December 31, 2010. In addition, product sales increased due to sales to direct customers at higher selling prices in 2011 compared to 2010 for our family of products.

Cost of sales for the three and six months ended June 30, 2011 increased compared to the three and six months ended June 30, 2010 due to increased revenue. Gross margin as a percentage of revenue increased for both the three and six month periods ended June 30, 2011 compared to the same periods in 2010, primarily due to increased utilization of our manufacturing capacity. Increased utilization resulted in lower overhead costs per unit manufactured being included in cost of sales. This is offset partially by certain non-recurring costs related to employee transition that occurred in the first quarter of 2011.

Licensing Revenue. We have entered into license agreements with one customer that provides this customer with limited access to our intellectual property under certain conditions. This customer paid upfront fees for the specific rights and we recognize license revenue ratably over the term of the agreements.

Operating Expenses

Our operating expenses for the three and six months ended June 30, 2011 and 2010 were:

	Three Month Period Ended June 30,		Six Month Period Ended June 30,	
	2011	2010	2011	2010
Research and development	$ 133,390	$ 81,502	$ 292,183	$ 148,435
% of revenue	22%	18%	24%	15%
Sales and marketing	$ 59,132	$ 117,017	$ 142,440	$ 240,406
% of revenue	10%	25%	12%	25%
General and administrative	$ 401,423	$ 386,626	$ 855,798	$ 829,200
% of revenue	65%	83%	69%	91%

Research and Development Expenses. Expenses relating to research and development for the three and six months ended June 30, 2011 increased compared to 2010 primarily due to higher personnel expenses related to new employees in 2011 and reclassification of one employee from marketing to research and development in January 2011. Additional increases were due to higher legal and consulting expenses as the company continues to explore uses for its products.

Sales and Marketing Expenses. For the three and six months ended June 30, 2011, sales and marketing expenses decreased compared to 2010 primarily due to lower personnel related costs due to a reclassification of one employee from marketing to research and development in January 2011 and to reduced spending on marketing materials in 2011.

General and Administrative Expenses. For the three and six months ended June 30, 2011, general and administrative expenses increased compared to 2010 primarily due to higher stock compensation costs recorded for options granted in the first quarter of 2011 offset by no bad debt expense in 2011 compared to $12,303 and $32,289 for the three and six month periods ended June 30, 2010.

Other Income (Expenses)

Interest Expense. Interest expense increased to $165,239 and $325,781 for the three and six months ended June 30, 2011, respectively, compared to $145,693 and $282,065 for the same periods in 2010. The increase is due to a higher debt balance as the Company has continued to borrow against the Facility Agreements.

Amortization of Deferred Financing Costs. Amortization of deferred financing costs represents the cost of warrants issued in the fourth quarter of 2010 which are being amortized over the life of the warrants.

Contractual Obligations

We did not have any off-balance sheet arrangements as defined in S-K 303(a)(4)(ii).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures. Under the supervision and with the participation of our senior management, including our chief executive officer/chief financial officer, we conducted an evaluation of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as of the end of the period covered by this quarterly report. Based on this evaluation, our chief executive officer/chief financial officer concluded as of June 30, 2011, that our disclosure controls and procedures were effective such that the information required to be disclosed in our SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to our management, including our chief executive officer/chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control over Financial Reporting. There have been no changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2011 that have materially affected or are reasonably likely to materially affect our internal control over financial reporting.

Limitations on Effectiveness of Control. Our management, including our chief executive officer/chief financial officer, does not expect that our disclosure controls and procedures or our internal controls over financial reporting will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within our Company have been detected.

PART II: OTHER INFORMATION

ITEM 6. EXHIBITS

See accompanying Index to Exhibits included after the signature page of this report for a list of exhibits filed or furnished with this report.

SIGNATURES

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

BIOLIFE SOLUTIONS, INC.

Dated: August 12, 2011	By:	/s/ Michael Rice Michael Rice President and Chief Executive Officer (Principal Executive and Financial Officer)

BioLife Solutions, Inc.

INDEX TO EXHIBITS

Exhibit No.	Description
31.1*	Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1*	Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
	*Filed herewith

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