DERMA SCIENCES, INC.
Form 424B4
February 18, 2010

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Registration No. 333-163127
Registration No. 333-164942

Derma Sciences, Inc.

972,000 Shares of Common Stock
Warrants to Purchase 324,000 Shares of Common Stock

This is a firm commitment public offering. We are offering for sale 972,000 shares of our common stock and warrants to purchase up to an aggregate of 324,000 shares of our common stock. Each purchaser of a share of our common stock in this offering will receive a warrant exercisable for one-third of a share of our common stock. In this offering, we will sell each share of our common stock and warrant to purchase one-third of a share of common stock for $5.00. The warrants will have a per share exercise price equal to $5.50. The warrants are exercisable immediately, non-callable, and will expire five years from the date of this prospectus. For a more detailed description of our common stock and warrants, see Description of Securities on page 51 of this prospectus.

The public offering price of the shares of common stock offered by this prospectus was determined by negotiation between us and the underwriter based upon market conditions and other factors on the day we priced the securities covered by this prospectus. The trading price of our common stock is subject to change as a result of market conditions and other factors and we cannot assure you that the shares sold under this prospectus can be resold at or above the offering price or that the shares issuable upon exercise of the warrants can be resold at or above the exercise price of the warrants.

Our common stock currently trades on the NASDAQ Capital Market under the symbol DSCI. On February 16, 2010, our common stock closed at $5.21. The warrants are not currently listed or quoted and we do not expect to seek a listing for them or expected them to be quoted on any market.

Investing in our securities involves certain risks. See Risk Factors beginning on page 4 of this prospectus for a discussion of information that should be considered in connection with an investment in our securities. Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

	Per Share[1]	Total
Public offering price	$5.00	$4,860,000
Underwriting discounts and commissions[2]	$0.325	$315,900
Proceeds, before expenses, to us[3]	$4.675	$4,544,100

(1) Does not include shares of common stock underlying warrants. For every share of common stock purchased, investors will receive a warrant to purchase one-third of a share of common stock.

(2) Does not include a non-accountable expense allowance equal to 0.5% of the gross proceeds of this offering payable to Rodman & Renshaw, LLC, the representative of the underwriters.

(3) We estimate that the total expenses of this offering, exclusive of the underwriters discount and non-accountable expense allowance, will be approximately $529,800.

We have granted a 45-day option to the underwriter to purchase additional shares of common stock up to an additional 145,800 shares and warrants to purchase up to 48,600 shares to be offered by us solely to cover over-allotments, if any. The shares and warrants issuable upon exercise of the underwriter option are identical to those offered by this prospectus and have been registered under the registration statement of which this prospectus forms a part.

In connection with this offering, we have agreed to issue to the underwriter a warrant to purchase up to 29,160 shares of common stock constituting the common stock component of the securities sold pursuant to the offering (excluding the over-allotment) at $6.25 per share, commencing one year from the effective date of the registration statement of which this prospectus is a part and expiring four years thereafter.

The underwriter expects to deliver the shares and warrants to purchasers in the offering on or about February 22, 2010.

Rodman & Renshaw, LLC

The date of this prospectus is February 16, 2010.

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We have not authorized anyone to provide you with information different from that contained or incorporated by reference to this prospectus. Under no circumstances should the delivery to you of this prospectus or any sale made pursuant to this prospectus create any implication that the information contained in this prospectus is correct as of any time after the date of this prospectus. To the extent that any facts or events arising after the date of this prospectus, individually or in the aggregate, represent a fundamental change in the information presented in this prospectus, this prospectus will be updated to the extent required by law.

We own or license the following trademarks: DERMA SCIENCES®, DERMAGRAN®, AMERICAN WHITE CROSS®, DUMEX®, MEDIHONEY®, ALGICELL®, XTRASORB™, TCC-EZ™, and BIOGUARD™.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus. It does not contain all of the information that you should consider before investing in our securities. You should read the entire prospectus carefully, including the section entitled Risk Factors and our consolidated financial statements and the related notes. The words we , us and our refer to Derma Sciences, Inc. unless the content indicates otherwise.

Our Company

We are a specialty medical device/pharmaceutical company with a primary focus on wound care. We engage in the manufacture, marketing and sale of three proprietary dermatological related product lines: (1) wound care, (2) wound closure and specialty securement devices, and (3) skin care. In addition, we have leveraged our expanding manufacturing capabilities by building a growing private label/original equipment manufacture (OEM) business. Our customers consist of various health care agencies and institutions such as wound care centers, long-term care facilities, hospitals, home healthcare agencies, physicians offices and closed door pharmacies. We also sell our products through retail channels such as retail pharmacies, other retail outlets and first-aid kit manufacturers. While we have our own direct selling organization, our products are principally sold through medical products supply distributors. We currently sell our products in the United States, Canada and select international markets. Our principal distribution facilities are located in St. Louis, Missouri, Houston, Texas and Toronto, Canada. Our principal manufacturing facility is located in Toronto, Canada. We, through our subsidiary Derma Sciences Canada, also lease a light manufacturing facility in Nantong, China producing labor intensive wound care products.

Derma Sciences, Inc. was organized and incorporated in 1984. In 1994, we completed our initial public offering and our common stock has been publicly held since that time. Derma Sciences, Inc. and our subsidiaries Sunshine Products, Inc., Derma Sciences Canada Inc. and Derma First Aid Products, Inc. are referred to collectively in this prospectus as we or us . Our executive offices are located at 214 Carnegie Center, Suite 300, Princeton, New Jersey and our telephone number is (609) 514-4744.

Our Website

Our internet address is *http://www.dermasciences.com.* Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to reports filed pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, are made available free of charge on our website as soon as practicable after these documents are filed with, or furnished to, the Securities and Exchange Commission (SEC). Information contained on our website, however, is not part of this prospectus.

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The Offering

Securities we are offering pursuant to this prospectus supplement

972,000 shares of common stock. Each purchaser of a share of common stock will also receive a warrant to purchase one-third of a share of common stock, or 324,000 shares in the aggregate. The shares of common stock and the warrants will be issued separately, but can only be purchased together in this offering.

Purchase Price

In this offering, we will sell each share of common stock and warrant to purchase one-third of a share of common stock for $5.00.

Description of warrants

The warrants will have a per share exercise price equal to $5.50. The warrants are exercisable immediately, non-callable, and expire five years from the date of issuance. See Description of Warrants.

Common stock to be outstanding after this offering

6,011,468 shares (6,335,468, if the warrants are exercised in full). If the underwriter's over-allotment option is exercised in full, the total number of shares of common stock outstanding immediately after this offering would be 6,157,268 (6,384,068 if the warrants are exercised in full).

Percentage of common stock to be acquired by new investors

16.2% (20.5% if all of the warrants are exercised).

Use of proceeds after expenses

We will use the proceeds of this offering, estimated to be $3,990,000, to acquire world-wide rights to certain advanced wound care technology, retire a term loan and for working capital. See Use of Proceeds .

Risk factors

This investment involves a high degree of risk. Investors purchasing our securities should not purchase the securities unless they can afford the loss of their entire investment. See Risk Factors .

Market for our common stock

Our common stock is quoted on The NASDAQ Capital Market under the symbol DSCI. On February 16, 2010, the last reported sale price of our common stock on The NASDAQ Capital Market was $5.21.

Market for the warrants

There is no established public trading market for the offered warrants and we do not expect a market to develop. In addition, we do not intend to apply for listing of the warrants on any national securities exchange.

Underwriter s warrant

In connection with this offering, we have agreed to issue to the underwriter a warrant to purchase up to 29,160 shares sold in this offering (excluding the over-allotment) at $6.25 per share.

Other covenants

We have granted the underwriter a six-month right of first refusal to conduct future offering for us following the date of this prospectus. See Underwriting.

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Summary Financial Information

In the table below we provide you with historical consolidated financial data for the years ended December 31, 2008 and 2007 and the nine month periods ended September 30, 2009 and 2008, derived from our audited and unaudited consolidated financial statements included elsewhere in this prospectus. Historical results are not necessarily indicative of the results that may be expected for any future period. When you read this historical selected financial data, it is important that you read it along with the appropriate historical consolidated financial statements and related notes and Management s Discussion and Analysis of Financial Condition and Results of Operations included elsewhere in this prospectus.

Statement of Operations Data

	Nine Months Ended September 30,		Years Ended December 31,	
	2009	2008	2008	2007
Net sales	$34,877,658	$37,641,362	$50,199,428	$34,135,401
Cost of sales	24,051,984	27,141,628	35,289,684	22,530,986
Gross profit	10,825,674	10,499,734	14,909,744	11,604,415
Total operating expenses	11,532,685	13,158,323	17,850,189	12,878,437
Operating loss	(707,011)	(2,658,589)	(2,940,445)	(1,274,022)
Total other expense, net	519,118	726,846	962,677	748,549
Loss before (benefit)/provision for income taxes	(1,226,129)	(3,385,435)	(3,903,122)	(2,022,571)
(Benefit)/provision for income taxes	(47,151)	(3,540)	58,815	262,034
Net loss	$(1,178,978)	$(3,381,895)	$(3,961,937)	$(2,284,605)

Balance Sheet Data

	September 30, 2009	December 31, 2008	Pro Forma (*)
Current assets	$ 15,410,282	$ 17,103,720	$ 18,000,282
Total assets	$ 33,334,583	$ 36,207,322	$ 33,924,583
Current liabilities	$ 8,745,138	$ 10,364,069	$ 7,545,138
Total liabilities	$ 11,827,456	$ 14,814,824	$ 8,427,456
Total shareholders equity	$ 21,507,127	$ 21,392,498	$ 25,497,127

(*) Pro forma amounts represent September 30, 2009 amounts adjusted to reflect the receipt of net proceeds from the offering estimated to be $3,990,000, the application of $1.4 million of these proceeds toward the retirement of our term loan and the application of $2.0 million of restricted cash currently collateralizing the term loan for the complete retirement of the loan.

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RISK FACTORS

This investment involves a high degree of risk and you should purchase shares only if you can afford a complete loss of your investment. Consider carefully these risk factors and other information in this prospectus.

Risks Associated with Our Business

We have a history of losses and can offer no assurance of future profitability.

We incurred losses of $3,961,937 in 2008, $2,284,605 in 2007, $1,099,990 in 2005, $2,338,693 in 2004, $2,581,337 in 2000, $2,998,919 in 1999 and $1,178,978 for the nine months ended September 30, 2009 (unaudited). At September 30, 2009, we had an accumulated deficit of $20,842,801 (unaudited). We cannot offer any assurance that we will be able to generate sustained or significant future earnings.

Our liquidity may be dependent upon amounts available under our existing line of credit or amounts available through additional debt or equity financings.

We have a history of operating losses and negative cash flow from operating activities. As such, we have utilized funds from offerings of our equity securities and lines of credit to fund our operations. We have taken steps to improve our overall liquidity and believe we have sufficient liquidity to meet our needs for the foreseeable future. However, in the event our cash flow from operating activities is insufficient to meet our requirements, we may be forced either to refinance our current line of credit or seek additional equity financing. The sale of additional securities could result in additional dilution to our shareholders. The incurrence of indebtedness would result in increased debt service obligations and could result in operating and financing covenants that would restrict our operations. There can be no assurance that such financing would be available or, if available, that such financing could be obtained upon terms acceptable to us.

Our foreign operations are essential to our economic success and are subject to various unique risks.

Our future operations and earnings will depend to a large extent on the results of our operations in Canada and our ability to maintain a continuous supply of basic wound care products from our operations in China and suppliers in China and Mexico. While we do not envision any adverse change to our operations in Canada, China or Mexico, adverse changes to these operations, as a result of political, governmental, regulatory, economic, exchange rate, labor, logistical or other factors, could have an adverse effect on our future operating results.

The rate of reimbursement for the purchase of our products by government and private insurance is subject to change.

Sales of several of our wound care products depend partly on the ability of our customers to obtain reimbursement for the cost of our products from government health administration agencies such as Medicare and Medicaid. Both government health administration agencies and private insurance firms continuously seek to reduce healthcare costs. Our ability to commercialize our products successfully will depend in part on the extent to which reimbursement for the costs of such products and related treatments will be available from government health administration authorities, private health insurers and other third-party payors. Significant uncertainty exists as to the reimbursement status of newly approved medical products. The continuing efforts of the government, insurance companies, managed care organizations and other payors of healthcare services to contain or reduce costs of healthcare may adversely affect:

- Our ability to set a price we believe is fair for our products;
- Our ability to generate revenues or achieve or maintain profitability; and
- The availability to us of capital.

Payors are increasingly attempting to contain healthcare costs by limiting both coverage and the level of reimbursement, particularly for new therapeutic products or if there is a perception that the target indication of the new product is well-served by existing drugs or other treatments. Accordingly, even if coverage and reimbursement are provided, market acceptance of our products would be adversely affected if the amount of coverage and/or reimbursement available for the use of our products proved to be unprofitable for healthcare providers or less profitable than alternative treatments.

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There have been federal and state proposals to subject the pricing of healthcare goods and services to government control and to make other changes to the U.S. healthcare system. While we cannot predict the outcome of current or future legislation, we anticipate, particularly given President Obama s focus on healthcare reform, that Congress and state legislatures will introduce initiatives directed at lowering the total cost of healthcare. In addition, in certain foreign markets the pricing of drugs is subject to government control and reimbursement may in some cases be unavailable or insufficient. It is uncertain if future legislative proposals, whether domestic or abroad, will be adopted that might affect our products. It is also uncertain what actions federal, state or private payors for healthcare treatment and services may take in response to any such healthcare reform proposals or legislation. Any such healthcare reforms could have a material and adverse effect on the marketability of any products for which we ultimately receive FDA or other regulatory agency approval or for which we receive government sponsored reimbursements.

Our success may depend upon our ability to protect our patents and proprietary technology.

We own patents, both in the United States and abroad, for several of our products, and rely upon the protection afforded by our patents and trade secrets to protect our technology. Our future success, if any, may depend upon our ability to protect our intellectual property. However, the enforcement of intellectual property rights can be both expensive and time consuming. Therefore, we may not be able to devote the resources necessary to prevent infringement of our intellectual property. Also, our competitors may develop or acquire substantially similar technologies without infringing our patents or trade secrets. For these reasons, we cannot be certain that our patents and proprietary technology will provide us with a competitive advantage.

Government regulation plays a significant role in our ability to acquire and market products.

Government regulation by the United States Food and Drug Administration and similar agencies in other countries is a significant factor in the development, manufacturing and marketing of many of our products and in our acquisition or licensing of new products. Complying with government regulations is often time consuming and expensive and may involve delays or actions adversely impacting the marketing and sale of our current or future products.

Approximately forty percent of our products are sourced from third parties.

Approximately forty percent of our products are sourced in raw, semi-finished and finished form directly from third party suppliers. None of these suppliers presently account for more than ten percent of our sales. We maintain good relations with our third party suppliers. There are several third party suppliers available for each of our products. If a current supplier were unable or unwilling to continue to supply our products, sale of the affected products could be delayed for the period necessary to secure a replacement.

The technology utilized in many of our advanced wound care products is licensed from third parties and could become unavailable.

Many of our advanced wound care products utilize technology that we license on an exclusive basis from third parties. These products include *Medihoney* dressings, *Bioguard* dressings and MedEfficiency™ total contact casts. The licensing agreements that we have with the owners of these technologies are of limited duration and renewals of the agreements are in the discretion of the licensors. In addition, the maintenance of the license agreements requires that we meet various minimum sales and minimum royalty requirements. If we fail to meet the minimum sales or minimum royalty requirements of a given license agreement, there is a possibility that the agreement will be cancelled or not renewed or that our exclusivity under the license agreement will be withdrawn. If any of these events were to occur, our ability to sell the products utilizing the licensed technology could be lost or compromised and our revenues and potential profits could be adversely affected.

Competitors could invent products superior to ours and cause our products and technology to become obsolete.

We operate in an industry where technological developments occur at a rapid pace. We compete with a large number of established companies and institutions many of which have more capital, larger staffs and greater expertise than we do. We also compete with a number of smaller companies. Our competitors

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currently manufacture and distribute a variety of products that are in many respects comparable to our products. While management has no specific knowledge of products under development by our competitors, it is possible that these competitors may develop technologies and products that are more effective than any we currently have. If this occurs, any of our products and technology affected by these developments could become obsolete.

Although we are insured, any material product liability claims could adversely affect our business.

We sell over-the-counter products and medical devices and are exposed to the risk of lawsuits claiming alleged injury caused by our products. Among the grounds for potential claims against us are injuries due to alleged product inefficacy and injuries resulting from infection due to allegedly non-sterile products. Although we carry product liability insurance with limits of $1.0 million per occurrence and $2.0 million aggregate with $10.0 million in umbrella coverage, this insurance may not be adequate to reimburse us for all damages that we could suffer as a result of successful product liability claims. No material product liability claim has ever been made against us and we are not aware of any pending product liability claims. However, a successful material product liability suit could adversely affect our business.

Risks Associated with this Offering and Our Capital Structure

The potential increase in common shares due to the conversion, exercise or vesting of outstanding dilutive securities may have a depressive effect upon the market value of our shares.

Without giving effect to the securities to be issued pursuant to the present offering, up to 2,563,599 shares of our common stock are potentially issuable upon the conversion, exercise or vesting of outstanding convertible preferred stock, warrants and options (dilutive securities). Without giving effect to the securities to be issued pursuant to the present offering, the shares of common stock potentially issuable upon conversion, exercise or vesting of dilutive securities are substantial compared to the 5,039,468 shares of common stock currently outstanding.

Earnings per share of common stock may be substantially diluted by the existence of these dilutive securities regardless of whether they are converted, exercised or issued. This dilution of earnings per share could have a depressive effect upon the market value of our common stock.

Our stock price has been volatile and this volatility is likely to continue.

Historically, the market price of our common stock has been volatile. The high and low prices for the years 2004 through 2009 are set forth in the table below:

Derma Sciences, Inc.
Trading Range Common Stock

Year	Low	High

2004	$ 3.44	$ 15.20
2005	$ 3.36	$ 6.24
2006	$ 3.60	$ 7.20
2007	$ 4.64	$ 11.20
2008	$ 1.60	$ 10.80
2009	$ 1.92	$ 6.80

Events that may affect our common stock price include:

- Quarter to quarter variations in our operating results;
- Changes in earnings estimates by securities analysts;
- Changes in interest rates or other general economic conditions;
- Changes in market conditions in the wound care and skin care industries;
- Fluctuations in stock market prices and trading volumes of similar companies;

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Discussion of us or our stock price by the financial and scientific press and in online investor communities;
Additions or departures of key personnel;
Changes in third party reimbursement policies;
The introduction of new products either by us or by our competitors; and
The loss of a major customer.

Although all publicly traded securities are subject to price and volume fluctuations, it is likely that our common stock will experience these fluctuations to a greater degree than the securities of more established and better capitalized organizations.

We have not paid, and we are unlikely to pay in the near future, cash dividends on our securities.

We have never paid any cash dividends on our common or preferred stock and do not anticipate paying cash dividends in the foreseeable future. The payment of dividends by us will depend on our future earnings, financial condition and such other business and economic factors as our management may consider relevant.

If members of our management and their affiliates were to exercise all warrants and options held by them, and if substantially all of the authorized but unissued restricted stock awards that were granted to members of management and were to vest, members of management and their affiliates could acquire effective control of us.

The executive officers and directors, together with institutions with which they are affiliated, own substantial amounts of our common stock, together with outstanding options and warrants to purchase our common stock. In addition, we have adopted, and our shareholders have approved, a restricted stock plan pursuant to which our outside directors and executive officers may be awarded up to 312,500 shares of restricted stock. Outside directors have been awarded to date 21,875 shares of restricted common stock. Depending upon the warrants and options exercised by outside investors, if directors, executive officers and affiliates were to exercise their options and warrants, and if additional shares of restricted stock are awarded to our directors and executive officers and such awards vest, members of management and their affiliates could obtain effective control of us. As a result, these officers, directors and affiliates would be in a position to significantly influence our strategic direction, the composition of our board of directors and the outcome of fundamental transactions requiring shareholder approval.

Our common stock does not have a vigorous trading market and you may not be able to sell your securities when desired.

We have a limited active public market for our common shares. We cannot assure you that a more active public market will develop thereby allowing you to sell large quantities of our shares. Consequently, you may not be able to readily liquidate your investment.

Our common stock may be delisted from the NASDAQ Capital Market which could negatively impact the price of our common stock and our ability to access the capital markets.

The listing standards of the NASDAQ Capital Market (referred to as the NASDAQ Market) provide that a company, in order to qualify for continued listing, must maintain a minimum stock price of $1.00 and satisfy standards relative to minimum shareholders equity, minimum market value of publicly held shares and various additional requirements. If we fail to comply with all listing standards applicable to issuers listed on the NASDAQ Market, our common stock may be delisted. If our common stock is delisted, it could reduce the price of our common stock and the levels of liquidity available to our shareholders. In addition, the delisting of our common stock could materially adversely affect our access to the capital markets and any limitation on liquidity or reduction in the price of our common stock could materially adversely affect our ability to raise capital. Delisting from the NASDAQ Market could also result in other negative consequences, including the potential loss of confidence by suppliers, customers and employees, the loss of institutional investor interest and fewer business development opportunities.

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The liquidity of our common stock and market capitalization could be adversely affected by our reverse stock split.

We implemented a 1-for-8 reverse split of our common and preferred stock on January 28, 2010. A reverse stock split is often viewed negatively by the market and, consequently, can lead to a decrease in our price per share and overall market capitalization. If the per share market price does not increase proportionately as a result of the reverse split, then our value as measured by our market capitalization will be reduced, perhaps significantly.

CAUTION REGARDING FORWARD LOOKING STATEMENTS

This prospectus contains forward-looking statements. Such forward-looking statements include statements regarding, among other things, (a) our projected sales and profitability, (b) our growth strategies, (c) anticipated trends in our industry, (d) our future financing plans, and (e) our anticipated needs for working capital. Forward-looking statements, which involve assumptions and describe our future plans, strategies, and expectations, are generally identifiable by use of the words may, should, expect, anticipate, estimate, believe, intend, or project or the negative of these words or other variations on these words or comparable terminology. This information may involve known and unknown risks, uncertainties, and other factors that may cause our actual results, performance, or achievements to be materially different from the future results, performance, or achievements expressed or implied by any forward-looking statements. These statements may be found under Prospectus Summary, Management s Discussion and Analysis of Financial Condition and Results of Operations and Description of Business, as well as in this prospectus generally. Actual events or results may differ materially from those discussed in forward-looking statements as a result of various factors, including, without limitation, the risks outlined under Risk Factors and matters described in this prospectus generally. In light of these risks and uncertainties, there can be no assurance that the forward-looking statements contained in this prospectus will in fact occur. In addition to the information expressly required to be included in this filing, we will provide such further material information, if any, as may be necessary to make the required statements, in light of the circumstances under which they are made, not misleading.

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WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and other reports, proxy statements and other information with the SEC under the Securities Exchange Act of 1934. You may read and copy any materials we file with the SEC at the SEC s public reference room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public through the SEC s website at *http://www.sec.gov*. General information about us, including our annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K, as well as any amendments and exhibits to those reports, are available free of charge through our website at *http://www.dermasciences.com* as soon as reasonably practicable after we file them with, or furnish them to, the SEC. Information on our website, other than the above mentioned reports and proxy statements, is not incorporated into, and is not a part of, this prospectus.

INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

The SEC allows us to incorporate by reference certain information we have filed with it, which means that we can disclose important information to you by referring you to those documents. The information incorporated by reference is considered to be part of this prospectus. The following documents we filed with the SEC are incorporated herein by reference:

(a) Our registration statement on Form 8-A effective May 13, 1994.
(b) Our annual report on Form 10-K filed March 31, 2009, and amended on November 12, 2009, for the year ended December 31, 2008.
(c) Our notice of annual meeting of shareholders and definitive proxy statement filed April 6, 2009 relative to the election of directors and ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the year ending December 31, 2009.
(d) Our current report on Form 8-K filed April 6, 2009 relative to: (i) our execution of a forbearance agreement with Western Medical, Inc. and (ii) our execution of an amendment to our credit and security agreement with GE Business Financial Services Inc.
(e) Our quarterly report on Form 10-Q filed May 15, 2009, and amended on November 12, 2009, for the three-month period ended March 31, 2009.
(f) Our quarterly report on Form 10-Q filed August 14, 2009, and amended on November 12, 2009, for the six-month period ended June 30, 2009.
(g) Our quarterly report on Form 10-Q filed November 13, 2009 for the nine-month period ended September 30, 2009.
(h) Our current report on Form 8-K filed January 29, 2010 relative to: implementation of a 1-for-8 (i) reverse split of common and preferred stock, and (ii) a corresponding reduction in our authorized shares of common and preferred stock.
(i) Our current report on Form 8-K filed February 11, 2010 relative to our listing on the NASDAQ Capital Market.

We will provide without charge to each person, including any beneficial owner, to whom a prospectus is delivered, upon written or oral request, a copy of any or all of the reports or documents that have been incorporated by reference in this prospectus. Requests for these reports or documents should be directed to John E. Yetter, CPA, Vice President and Chief Financial Officer, Derma Sciences, Inc., 214 Carnegie Center, Suite 300, Princeton, NJ 08540. Requests for these reports or documents may be made telephonically to Mr. Yetter at 609-514-4744 and via email to jyetter@dermasciences.com. We will not send exhibits to these filings unless we have specifically incorporated the exhibit by reference into the filing.

We have filed a registration statement with the SEC under the Securities Act that registers the issuance and sale of the securities offered by this prospectus. The registration statement, including the attached exhibits, contains additional relevant information about us. The rules and regulations of the SEC allow us to omit some information included in the registration statement from this prospectus.

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USE OF PROCEEDS

Assuming the sale of 972,000 shares of common stock and warrants to purchase 324,000 shares of common stock at a public offering price of $5.00 per share of common stock and warrant, we would receive net proceeds of $3,990,000 after deducting $315,900 for underwriting discounts and commissions and estimated expenses of approximately $554,100 for the underwriter s non-accountable expense allowance, legal, accounting, printing costs and various fees associated with the registration and listing of our shares. If the underwriter exercises its right to purchase additional shares of common stock to cover over-allotments, we would receive up to an additional $677,970 after deducting $51,030 for underwriting discounts, commissions and non-accountable expenses. The proceeds from the sale of the shares sold to cover over-allotments will be used for working capital. Assuming no exercise of the underwriter s over-allotment option, we intend to use the net proceeds of the offering as follows:

	Applied Net Proceeds	Applied Percentage
Payment against the cash portion of fees in respect of world-wide licensing rights to advanced wound care technology	$2,250,000	56 %
Retirement of term loan (*)	1,400,000	35 %
Working capital	340,000	9 %
Total proceeds applied	$3,990,000	100 %

(*) The term loan to be retired is in the amount of $3.4 million, bears interest at a variable rate (6.03% as of September 30, 2009), matures in November, 2012 and is collateralized, in part, by $2.0 million in a restricted cash account. Retirement of the loan will be effected by the combination of $1.4 million of the offering proceeds and $2.0 million from the restricted cash account.

DETERMINATION OF OFFERING PRICE

The public offering price of the securities offered by this prospectus was determined by negotiation between us and the underwriter based upon market conditions and other factors on the day we priced the securities. We cannot assure you that the shares constituting the common stock component of the securities can be resold at or above the public offering price.

DIVIDEND POLICY

We do not expect to declare or pay any cash dividends on our common stock in the foreseeable future and we currently intend to retain future earnings, if any, to finance the expansion of our business. The decision whether to pay cash dividends on our common stock will be made by our board of directors, in their discretion, and will depend on our financial condition, operating results, capital requirements and other factors that the board of directors considers significant.

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CAPITALIZATION

The table set forth below depicts our capitalization as of September 30, 2009, on an actual and pro forma basis, as follows:

- On an actual basis; and
- On a pro forma basis as adjusted to reflect the receipt of net proceeds of $3,990,000 from the sale of 972,000 shares of our common stock and warrants to purchase 324,000 shares of our common stock offered hereby less underwriting discounts and estimated offering expenses and the repayment of $3,400,000 of long term debt.

	Actual	Pro Forma
Long-term debt, excluding capital lease obligations	$4,300,000	$900,000
Common stock, $0.01 par value; authorized: 18,750,000; outstanding: 5,039,468	50,395	60,115
Convertible preferred stock, $0.01 par value; authorized: 1,468,750; outstanding: 285,051	2,851	2,851
Additional paid-in capital	41,082,067	45,062,347
Accumulated other comprehensive income	1,214,615	1,214,615
Accumulated deficit	(20,842,801)	(20,842,801)
Total capitalization	$25,807,127	$26,397,127

MARKET FOR COMMON EQUITY AND RELATED SHAREHOLDER MATTERS

Our common stock is traded on the NASDAQ Capital Market under the symbol DSCI. Until February 10, 2010 our common stock traded on the OTC Bulletin Board. The following table sets forth the high and low bid prices for our common stock on the OTC Bulletin Board during each of the indicated calendar quarters:

Quarter Ended	High	Low
March 31, 2009	$ 5.60	$ 2.80
June 30, 2009	$ 4.40	$ 1.92
September 30, 2009	$ 6.80	$ 2.64
December 31, 2009	$ 6.16	$ 4.32
March 31, 2008	$ 10.80	$ 5.92
June 30, 2008	$ 8.40	$ 6.40
September 30, 2008	$ 7.60	$ 2.16
December 31, 2008	$ 5.60	$ 1.60
March 31, 2007	$ 6.96	$ 5.28
June 30, 2007	$ 8.80	$ 4.72
September 30, 2007	$ 7.76	$ 4.80
December 31, 2007	$ 11.20	$ 4.64

On February 16, 2010 our common stock closed at $5.21. The stock prices reflect inter-dealer prices without retail mark-up, mark-down or commission and may not necessarily represent actual transactions. There is no public market for our preferred stock. As of the close of business on February 16, 2010 there were 1,172 holders of record of the common stock.

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DILUTION

As of September 30, 2009, we had a net tangible book value of $10,064,651 or $1.89 per share. Net tangible book value represents our total tangible assets, less all liabilities, divided by the number of shares of common and preferred stock issued and outstanding.

Without taking into account any changes in such net tangible book value after September 30, 2009, other than to give effect to the securities offered hereby (excluding the securities covered by the underwriter s over allotment option), the pro forma net tangible book value per share at September 30, 2009 was $2.23. This amount represents an immediate increase in net tangible book value of $0.34 per share to our current shareholders and an immediate decrease in net tangible book value of $2.77 per share to new investors purchasing shares in this offering.

The table set forth below shows the calculation of the increase in book value to current shareholders and the decrease in book value to investors in this offering.

Post-offering net tangible book value per share	$	2.23	(1)
Pre-offering net tangible book value per share		1.89	(2)
Pro forma increase in book value per share attributable to new investors	$	0.34	
Offering price per share	$	5.00	
Post-offering net tangible book value per share		2.23	(1)
Pro forma decrease in book value per share experienced by new investors	$	2.77	

(1) Determined by adding to our pre-offering net tangible assets of $10,064,651 the amount of $3,990,000 representing the estimated net proceeds of the offering and dividing the sum of these amounts by the post-offering outstanding common and preferred stock totaling 6,296,519 shares.

(2) Determined by dividing our pre-offering net tangible assets of $10,064,651 by our pre-offering outstanding common and preferred stock totaling 5,324,519 shares.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Overview

The following table highlights the nine months ended September 30, 2009 versus 2008 operating results:

	Nine Months Ended September 30,		Variance	
	2009	2008		
Gross Sales	$41,668,350	$45,524,044	$(3,855,694)	(8.5%)
Sales adjustments	(6,790,692)	(7,882,682)	(1,091,990)	(13.9%)
Net sales	34,877,658	37,641,362	(2,763,704)	(7.3%)
Cost of sales	24,051,984	27,141,628	(3,089,644)	(11.4%)
Gross profit	10,825,674	10,499,734	325,940	3.1 %
Selling, general and administrative expense	11,244,347	12,919,124	(1,674,777)	(13.0%)
Research and development expense	288,338	239,199	49,139	20.5 %
Interest expense	631,909	748,743	(116,834)	(15.6%)
Other income, net	(112,791)	(21,897)	(90,894)	
Total expenses	12,051,803	13,885,169	(1,833,366)	(13.2%)
Loss before income taxes	(1,226,129)	(3,385,435)	2,159,306	63.8 %
Provision for income taxes				