DERMA SCIENCES INC
Form 10QSB
May 14, 2004

U.S. SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-QSB

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

For Quarter Ended	March 31, 2004
Commission File Number	1-31070

Derma Sciences, Inc.

(Exact name of small business issuer as specified in its charter)

Pennsylvania	**23-2328753**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

214 Carnegie Center, Suite 100
Princeton, New Jersey 08540
(609) 514-4744
(Address including zip code and telephone number, of principal executive offices)

Check whether the Issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the Issuer was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes [X] No [ ]

State the number of shares of each of the issuer's classes of common equity, as of the latest practicable date.

Date: March 31, 2004	Class: Common Stock, par value $.01 per share Shares Outstanding: 9,524,007

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Forward Looking Statements

This document includes certain "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. These statements are based on management's current expectations and are subject to uncertainty and changes in circumstances. Actual results may differ materially from these expectations due to changes in political, economic, business, competitive, market and regulatory factors.

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Part I - Financial Information

Item 1. FINANCIAL STATEMENTS

DERMA SCIENCES, INC.

Consolidated Balance Sheets

	March 31, 2004 (Unaudited)	December 2003
ASSETS		
Current Assets		
Cash and cash equivalents	$ 184,918	$ 439,
Cash, restricted	1,001,125	-
Accounts receivable, net	2,475,436	2,627,
Inventories	4,723,080	4,003,
Prepaid expenses and other current assets	382,120	351,
Total current assets	8,766,679	7,422,
Property and equipment, net	2,794,520	1,077,
Goodwill	1,110,967	1,110,
Other intangible assets, net	478,353	158,
Other assets, net	140,693	156,
Total Assets	$ 13,291,212	$ 9,926,
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit	$ 1,051,024	$ 1,361,
Current maturities of long-term debt	202,486	178,
Note payable	1,566,000	-
Accounts payable	1,375,756	731,
Accrued expenses and other current liabilities	471,667	313,
Total current liabilities	4,666,933	2,585,
Long-term Liabilities		
Long-term debt	929,194	849,
Other long-term liabilities	228,020	-

Total long-term liabilities	1,157,214	849,
Total Liabilities	5,824,147	3,435,
Shareholders' Equity		
Common stock, $.01 par value, 30,000,000 shares authorized; issued and outstanding: 9,524,007 shares at March 31, 2004 and 7,462,695 shares at December 31, 2003	95,240	74,
Convertible preferred stock, $.01 par value; 11,750,000 shares authorized; issued and outstanding: 2,280,407 shares at March 31, 2004 (liquidation preference of $4,210,231) and 2,284,574 shares at December 31, 2003 (liquidation preference of $4,235,233)	22,804	22,
Additional paid-in capital	18,705,880	16,746,
Accumulated other comprehensive income	266,944	294,
Accumulated deficit	(11,623,803)	(10,647,
Total Shareholders' Equity	7,467,065	6,491,
Total Liabilities and Shareholders' Equity	$ 13,291,212	$ 9,926,

See accompanying notes.

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DERMA SCIENCES, INC.

Consolidated Statements of Operations (Unaudited)

	Three months ended March 31, 2004	2003
Net sales	$ 5,029,422	$ 4,216,
Cost of sales	3,579,613	2,689,
Gross Profit	1,449,809	1,527,
Operating expenses	2,261,958	1,455,
Interest expense, net	46,667	113,
Other expense (income), net	117,650	(49,
Total Expenses	2,426,275	1,518,
(Loss) income before provision for income taxes	(976,466)	8,
Provision for income taxes	-	-
Net (Loss) Income	$ (976,466)	$ 8,
(Loss) income per common share - basic and diluted	($0.11)	$0
Shares used in computing (loss) income per common share - basic	8,809,151	4,631,
Shares used in computing (loss) income per common share - diluted	8,809,151	7,174,

See accompanying notes.

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DERMA SCIENCES, INC.

Consolidated Statements of Cash Flows (Unaudited)

	Three months ended March 31, 2004	200
Operating Activities		
Net (loss) income	$ (976,466)	$ 8,0
Adjustments to reconcile net (loss) income to net cash used in operating activities:		
Depreciation	73,917	37,2
Amortization	44,208	74,0
Deferred financing costs	-	7,5
Provision for bad debts and rebates	53,492	5,1
Provision for inventory obsolescence	77,400	12,0
Loss on disposal of property and equipment	94,428	2,1
Changes in operating assets and liabilities:		
Restricted cash	(1,001,125)	-
Accounts receivable	124,104	(31,7
Inventories	(822,688)	(41,1
Prepaid expenses and other current assets	(30,871)	(129,4
Other assets	9,430	(6,8
Accounts payable	648,367	165,1
Accrued expenses and other current liabilities	160,443	(192,5
Long-term liabilities	225,844	-
Net cash used in operating activities	(1,319,517)	(90,4
Investing Activities		
Cash paid for wound care business	(376,510)	-
Purchases of property and equipment	(135,880)	(26,5
Net cash used in investing activities	(512,390)	(26,5
Financing Activities		
Net change in bank line of credit	(292,497)	(817,5
Deferred financing costs	(60,617)	(19,7
Long-term debt repayments	(44,083)	(65,9
Proceeds from issuance of stock, net of issuance costs	1,979,761	(5,6
Net cash provided by (used in) financing activities	1,582,564	(908,8
Effect of exchange rate changes on cash and cash equivalents	(5,576)	9
Net decrease in cash and cash equivalents	(254,919)	(1,024,9
Cash and cash equivalents		
Beginning of period	439,837	1,496,3
End of period	$ 184,918	$ 471,4

Supplemental cash flow information:		
Note payable for acquisition of Kimberly-Clark wound care assets	$ 1,566,000	-
Equipment obtained with capital lease	$ 159,097	-

See accompanying notes.

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DERMA SCIENCES, INC.

Notes To Consolidated Financial Statements

1. Organization and Summary of Significant Accounting Policies

Derma Sciences, Inc. and its subsidiaries (the Company) are full line providers of wound care, wound closure-fasteners and skin care products. The Company markets its products principally through independent distributors servicing the long-term care, home health and acute care markets in the United States, Canada and other select international markets. The Company s principal manufacturing and distribution facilities are located in St. Louis, Missouri and Toronto, Canada. The Company also has a manufacturing facility in Nantong, China.

Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information and with the instructions to Form 10-QSB and Item 310(b) of Regulation S-B. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring adjustments) considered necessary for a fair presentation have been included. Operating results for the three month period ended March 31, 2004, are not necessarily indicative of the results that may be expected for the year ending December 31, 2004. For further information, refer to the consolidated financial statements and footnotes thereto for the year ended December 31, 2003, included in Form 10-KSB filed with the Securities and Exchange Commission.

Summary of Significant Accounting Policies:

Principles of Consolidation The consolidated financial statements include the accounts of Derma Sciences, Inc. and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Use of Estimates In conformity with accounting principles generally accepted in the United States, the preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Although these estimates are based on knowledge of current events and actions which may be undertaken in the future, actual results may ultimately differ from these estimates.

Foreign Currency Translation Assets and liabilities are translated using the exchange rates in effect at the balance sheet date, while income and expenses are translated using average rates. Translation adjustments are reported as a component of shareholders equity in accumulated other comprehensive income (loss).

Cash and Cash Equivalents The Company considers cash and cash equivalents as amounts on hand, on deposit in financial institutions and highly liquid investments purchased with an original maturity of three months or less.

Concentration of Credit Risk Financial instruments that subject the Company to a concentration of credit risk consist principally of cash and cash equivalents and accounts receivable. The Company maintains cash and cash equivalents with various financial institutions. The Company performs periodic evaluations of the relative credit standing of those financial institutions, and the Company s policy is designed to limit exposure to any one institution. The Company s accounts receivable is net of an allowance for doubtful accounts. The Company does not require collateral or other security to support credit sales, but provides an allowance for doubtful accounts based on historical experience and specifically identified risks. Accounts receivable are charged off against the allowance for doubtful accounts when management determines that recovery is unlikely and the Company ceases collection efforts.

Inventories Inventories consist primarily of raw materials, packaging materials, work in process and finished goods valued at the lower of cost or market. Cost is determined on the basis of the first-in, first-out method.

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Notes To Consolidated Financial Statements

Property and Equipment Property and equipment are stated at cost and are depreciated principally by the straight-line method over the estimated useful lives of the assets ranging from three to ten years. Leasehold improvements are depreciated over the lesser of their useful lives or the remaining lease term.

Fair Value of Financial Instruments The carrying value of cash and cash equivalents, accounts receivable, prepaid expenses and other current assets, accounts payable and accrued expenses reported in the consolidated balance sheets equal or approximate fair value due to their short maturities. The fair value of the Company s long-term debt approximates book value as such notes are at market rates currently available to the Company.

Intangible Assets Patents and trademarks and other intangible assets are stated on the basis of cost. Patents and trademarks are amortized over 12 to 17 years on a straight-line basis. Other intangible assets are amortized over 5 years on a straight line basis.

Goodwill Goodwill of $1,110,967 represents the excess of the purchase price over the fair value of identifiable net assets acquired in the 1998 acquisition of Sunshine Products. This business combination was accounted for as a purchase. The Company adopted Statement of Financial Accounting Standards No. 142 (SFAS No. 142), Goodwill and Other Intangible Assets on January 1, 2002. Goodwill and certain other intangible assets having indefinite lives are no longer amortized to earnings, but instead are subject to periodic (annual) testing for impairment. The Company tests goodwill for impairment using the two-step process prescribed by SFAS No. 142. The first step tests for potential impairment, while the second step measures the amount of impairment, if any. The Company uses a discounted cash flow analysis to complete the first step in this process. The Company conducted the required annual impairment review in the fourth quarter of 2003 and determined that the goodwill carrying value was not impaired. A similar review will be performed in the fourth quarter of 2004.

Long Lived Assets In accordance with SFAS 144, Accounting for Impairment or Disposal of Long Lived Assets the Company reviews its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of such assets may not be recoverable. If the carrying amount of the asset or group of assets exceeds its net realizable value, the asset will be written down to its fair value.

Stock Based Compensation SFAS No.123, Accounting for Stock-Based Compensation , as amended by SFAS No. 148, Accounting for Stock-Based Compensation-Transition and Disclosure , provides companies with a choice to follow the provisions of SFAS No. 123 in determination of stock-based compensation expense or to continue with the provisions of APB No. 25, Accounting for Stock Issued to Employees and related interpretations in accounting for stock-compensation plans. The Company has elected to follow the provisions of APB 25. Under APB 25, if the exercise price of the Company s stock options equals or exceeds the market price of the underlying Common Stock on the date of grant, generally no compensation expense is recognized. The Company has issued common stock options to certain executives with vesting contingent upon the achievement of performance targets. These options could result in a compensation charge in the future based on the difference between the exercise price of the options and the market price of the Company s common stock if the performance targets are met and the options vest.

Pro forma information regarding net income (loss) and earnings (loss) per share is required by SFAS No. 123, which also requires that the information be determined as if the Company has accounted for its stock options granted under the fair value method of that Statement. The fair value for these options was estimated at the date of grant using a Black-Scholes option pricing model with the following weighted-average assumptions for 2004 and 2003: risk-free interest rate of 4.0%, dividend yield of 0%; a volatility factor of the expected market price of the Company s Common Stock of 1.463 and 1.663, respectively; and an expected option life of 5 years.

The Black-Scholes option valuation model was developed for use in estimating the fair value of traded options which have no vesting restrictions and are fully transferable. In addition, option valuation models require the input of highly subjective assumptions including the expected stock price volatility. The Company s stock options have characteristics significantly different from those of traded options. Further, changes in the subjective input assumptions related to the options can materially affect the fair value estimate. Therefore, in management s opinion the existing models do not necessarily provide a reliable single measure of the fair value of the Company s stock options.

DERMA SCIENCES, INC.

Notes To Consolidated Financial Statements

For purposes of pro forma disclosures, the estimated fair value of stock options is amortized to expense over the options vesting period. Therefore, future pro forma compensation expense may be greater as additional options are granted. The Company s pro forma information follows:

	Quarter Ended March 31	
	2004	2003
Net (loss) income - as reported	$ (976,466)	$ 8,0
Pro forma compensation expense	(181,906)	(81,2
Pro forma net loss	$(1,158,372)	$ (73,1

Income (loss) per common share - basic and diluted		
As reported	$(0.11)	$0.
Pro forma	$(0.13)	$(0.

Income Taxes The Company accounts for taxes using an asset and liability approach. The asset and liability approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of temporary differences between the financial reporting and tax basis of assets and liabilities.

Revenue Recognition The Company operates in three segments: wound care, wound closure-fasteners and skin care. Sales are recorded when product is shipped and title passes to customers. Gross sales are adjusted for cash discounts, Medicaid rebates and trade rebates to derive net sales. Freight costs to ship product to customers are recorded as a component of cost of sales. Freight costs billed to and reimbursed by customers are recorded as a component of revenue.

Net Income (Loss) per Share Net income (loss) per common share basic is computed by dividing net income (loss) by the weighted average number of common shares outstanding for the period. Net income (loss) per common share diluted reflects the potential dilution of earnings by including other common stock equivalents, including stock options, warrants and convertible preferred stock in the weighted average number of common shares outstanding for a period, if dilutive.

Reclassifications Certain reclassifications have been made to prior year amounts reported to conform with the 2004 presentation.

2. Acquisition of Kimberly-Clark Corporation s Wound Care Assets

On January 9, 2004, the Company purchased certain wound care assets from Kimberly-Clark Corporation. The assets acquired consist of manufacturing equipment, product rights and other intangibles. The purchase price for the assets was $1,942,510 and was paid as follows: (1) $300,100 at closing; (2) $1,566,000 via a seller financed promissory note due December 31, 2004, without interest; and (3) $76,410 incurred for transaction costs. The purchase price has been preliminarily allocated to equipment in the amount of $1,600,000 and intangible assets (Note 6) in the amount of $342,510 based upon these assets estimated fair values.

During the first quarter 2004, the Kimberly-Clark wound care product line generated $630,523 in net sales. Kimberly-Clark manufactured wound care products, for the account of the Company, at its facility through April 9, 2004 to meet current customer demand and to build sufficient inventory to cover the period during which production at the Kimberly-Clark facility is discontinued and the equipment is transferred to the Company s facility in Toronto, Canada. Upon cessation of manufacturing at Kimberly-Clark s facility, the Company will purchase, in accordance with a pre-determined formula, inventory consisting of raw and packaging materials and up to four months supply of finished goods. The purchase price of this inventory is estimated to be $600,000. Cash on hand and borrowings against available credit lines will be used to pay for this inventory.

The Company expects that it will take three months from the date of cessation of manufacturing at Kimberly-Clark to transfer, install and validate the equipment and commence manufacturing in Toronto, Canada. The cost to complete the transfer is estimated at $560,000. The majority of this cost is expected to be capitalized.

The unaudited pro forma information below presents results of operations as it the acquisition had occurred on January 1, 2003. The pro forma information is based on historical results and is not necessarily indicative of the operations of the combined entity had the acquisition occurred on January 1, 2003 , nor is it necessarily indicative of future results. Pro forma results for 2004 have not been presented as the acquisition occurred on January 9, 2004 and the recorded results would not have been materially different had the acquisition occurred on January 1, 2004.

	Three Months Ended March 31, 2003
Net sales	$4,750,000
Net loss	$(315,000)
Loss per common share-basic and diluted	$(0.07)

3. Accounts Receivable

Accounts receivable include the following:

	March 31, 2004	December 31, 2003
Trade accounts receivable	$2,615,638	$2,802,985
Less: Allowance for doubtful accounts	(46,518)	(35,785)
Allowance for trade rebates	(195,000)	(212,000)
Net trade receivables	2,374,120	2,555,200
Other receivables	101,316	71,892
Total receivables	$2,475,436	$2,627,092

The allowance for trade rebates reflects estimated rebates embedded in outstanding trade receivables.

4. Inventories

Inventories include the following:

	March 31, 2004	December 31, 2003
Finished goods	$3,539,719	$2,814,651
Work in process	131,604	172,536
Packaging materials	343,210	307,635
Raw materials	708,547	708,436
Total inventory	$4,723,080	$4,003,258

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Notes To Consolidated Financial Statements

5. Property and Equipment

Property and equipment include the following:

	March 31, 2004	December 31, 2003
Machinery and equipment	$2,996,756	$1,277,352
Furniture and fixtures	189,681	183,967
Leasehold improvements	106,487	49,541
Gross property and equipment	3,292,924	1,510,860
Less: accumulated depreciation	(498,404)	(433,172)
Net property and equipment	$2,794,520	$1,077,688

Machinery and equipment increased in the quarter ended March 31, 2004 due principally to the acquisition of Kimberly-Clark Corporation's wound care assets. The Company recorded a charge of $94,428 in the quarter ended March 31, 2004 related to the disposal of obsolete equipment.

6. Other Intangible Assets, net

	March 31, 2004	December 31, 2003
Patents and trademarks	$ 444,067	$ 444,067
Other intangible assets	383,077	40,567
Gross other intangible assets	827,144	484,634
Less: accumulated amortization	(348,791)	(326,030)
Other intangible assets, net	$ 478,353	$ 158,604

Intangible assets increased in the quarter ended March 31, 2004 due to the acquisition of Kimberly-Clark Corporation's wound care assets.

7. Other Assets, net

Other assets, net include the following:

	March 31, 2004	December 31, 2003
Deferred financing costs, net	$ 71,322	$ 77,415
Deposits	69,371	69,834

Other	-	9,516
Total other assets, net	$ 140,693	$ 156,765

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DERMA SCIENCES, INC.

Notes To Consolidated Financial Statements

8. Short Term Borrowings

Short term borrowings include the following:

	March 31, 2004	December 31, 2003
U.S. line of credit	-	-
Note payable - Kimberly-Clark Corporation	$1,566,000	-
Canadian line of credit	1,051,024	$1,361,708
Total short-term borrowings	$2,617,024	$1,361,708

U.S. Line of Credit

In March 2003 the Company entered into a one year line of credit agreement (subject to annual renewal) with a U.S. lender (the Agreement) for a maximum principal amount of $2,000,000. On December 24, 2003, the Company entered into a new one year line of credit agreement with its U.S. lender for a maximum principal amount of $3,000,000. The Company terminated its prior U.S. line of credit on February 28, 2003 by repaying the $1,000,000 outstanding indebtedness and paying a $50,000 early termination fee. In addition, the Company charged $66,342 to interest expense during 2003 for deferred financing costs associated with the prior U.S. line of credit.

On January 30, 2004 the Company entered into a new one year line of credit agreement with its U.S. lender. The maximum principal amount of the line increased to $4,000,000 from $3,000,000. No funds were drawn against the line at March 31, 2004. Advances will be used to fund strategic initiatives and for general working capital purposes. Estimated maximum potential advances under the agreement are equal to the lesser of (A) $4,000,000 or (B) the sum of (i) 80% of eligible receivables (as defined), (ii) 50% of eligible inventory (as defined), (iii) an amount equal to the immediate liquidation value of funds deposited with the U.S. lender in a restricted account as security for any letters of credit extended by the lender on the Company s behalf up to $1,000,000, less the aggregate of any outstanding letters of credit issued by the lender. Interest on outstanding advances is payable monthly in arrears at the one month LIBOR rate (as published in The Wall Street Journal), plus 3.0%, or 4.1% at March 31, 2004. In addition, the Company paid an annual line fee of $40,000. This line fee and any one-time lender or legal costs associated with securing the line of credit will be deferred and amortized to interest expense over the line term of one year.

In connection with entering into the new line of credit agreement in January 2004, the Company deposited $1,000,000 of cash in a restricted account with the U.S. lender and the lender issued an irrevocable standby letter of credit on the Company s behalf for the benefit of Kimberly-Clark Corporation in the amount of $1,566,000.

Outstanding advances are secured by all tangible and intangible assets of the Company s U.S. operations. Over the term of the Agreement, the Company has agreed to maintain its fixed charge ratio (as defined) at not less than 1.25:1.0 as measured quarterly on a twelve month trailing basis. Additional covenants governing permitted indebtedness, changes in entity status, purchase of securities and protection of collateral are included in the Agreement. Outstanding standby letters of credit, less the restricted cash, serve to reduce the Company s potential borrowing capacity under the Agreement by $766,000.

The first quarter 2004 operating loss resulted in the Company being out of compliance with certain U.S. line of credit covenants at March 31, 2004. The U.S. lender agreed to waive the covenant violations at March 31, 2004 and adjust the covenants prospectively. The Company anticipates that it will be able to comply with the adjusted covenants for the foreseeable future.

Note Payable Kimberly-Clark Corporation

The Kimberly-Clark Corporation and the Company amended the January 9, 2004 purchase agreement on January 30, 2004. This amended agreement provides for payment of the $1,566,000 balance due in accordance with an amended promissory note, secured by an irrevocable letter of credit issued by the Company s lender, requiring a single payment of $1,566,000, without interest, on or before December 31, 2004.

Canadian Line of Credit

On December 30, 2003, the Company renewed its revolving credit facility agreement (the Dumex Agreement) for a maximum principal amount of $1,675,000 with a Canadian bank. The renewed credit facility expires on December 31, 2004. The Company s wholly owned Canadian subsidiary, Dumex Medical Canada Inc., may request advances under the Dumex Agreement up to the value of seventy-five percent (75%) of its eligible receivables (as defined) and fifty percent (50%) of eligible inventory (as defined) up to a maximum of $725,000. Interest on outstanding advances is payable monthly at the prime rate (as defined) plus 1.0%, or 5.5% for advances outstanding at March 31, 2004. Outstanding advances are secured by all tangible and intangible assets of Dumex Medical Canada Inc. In addition, the Canadian bank has a second lien security interest in the assets of the Company s U.S. operations. The Company has also guaranteed payment of amounts due under the Dumex Agreement.

Over the term of the Dumex Agreement, the Company has agreed to comply with a number of financial covenants governing minimum working capital, current ratios, tangible net worth, interest coverage, total indebtedness to tangible net worth and total indebtedness to adjusted pre-tax earnings. These covenants are measured at the end of each month. Additional covenants governing permitted indebtedness, liens, payments of dividends and protection of collateral are included in the Dumex Agreement. In the event of a margin deficiency (as defined) or covenant violation, the Company is required to advance up to an additional $380,000 of working capital to Dumex Medical Canada Inc. in order to correct the deficiency. This additional working capital may be repaid to the Company 45 days after the margin deficiency or covenant violation has been cured upon the condition that such repayment not result in a margin deficiency, covenant violation or any other event of default.

As security for indebtedness of the Company s subsidiary, Dumex Medical Canada Inc., the Company has accorded a Canadian bank its guarantee of payment together with a second lien security interest in the Company s assets located in the U.S. In connection with the Dumex Agreement and in return for a standby letter of credit in the amount of $200,000 against the Company s U.S. line of credit, the Canadian bank has agreed not to exercise its rights under its second lien security interest and guarantee against the Company s U.S. assets without the U.S. lender s approval.

A $450,000 charge for employee termination costs resulted in Dumex being out of compliance with certain of its loan covenants at March 31, 2004. The Canadian bank agreed to waive the covenant violations at March 31, 2004 and adjust the covenants prospectively. The Company anticipates that it will be able to comply with the adjusted covenants for the foreseeable future.

9. Long-Term Debt

Long-term debt includes the following:

	March 31, 2004	December 31, 2003
Canadian term loan	$ 970,792	$1,025,839
Capital lease obligations	160,888	2,862
Total debt	1,131,680	1,028,701
Less: current maturities	202,486	178,720
Long-term debt	$ 929,194	$ 849,981

In connection with the acquisition of substantially all the assets of Dumex Medical Inc. in 2002, the Company entered into a five-year term loan agreement with a Canadian Bank. The loan is repayable in monthly payments consisting of principal and interest. Interest on the outstanding principal balance is payable monthly at the bank s prime rate (as defined) plus 1.25%, or 5.25% at March 31, 2004. The term loan is secured by all tangible and intangible assets of Dumex Medical Canada Inc. and subject to the same financial covenants applicable to the operating line of credit (See Note 8).

The Company has two capital lease obligations for certain distribution equipment totaling $159,097 and manufacturing equipment for $1,791. The distribution and manufacturing equipment capital leases bear interest at annual rates of 8.2% and 10.75%, respectively, and expire in April 2009 and August 2004, respectively.

10. Shareholders Equity

Preferred Stock

There are 150,003 shares of series A convertible preferred stock outstanding. The series A preferred stock is convertible into common stock on a one-for-one basis, bears no dividend, maintains a liquidation preference of $4.00 per share, votes as a class on matters affecting the series A preferred stock and maintains voting rights identical to the common stock on all other matters.

There are 440,003 shares of series B convertible preferred stock outstanding. The series B preferred stock is convertible into common stock on a one-for-one basis, bears no dividend, maintains a liquidation preference of $6.00 per share, votes as a class on matters affecting the series B preferred stock and maintains voting rights identical to the common stock on all other matters.

There are 619,055 shares of series C convertible preferred stock outstanding. The series C preferred stock is convertible into common stock on a one-for-one basis, bears no dividend, maintains a liquidation preference averaging $0.70 per share, votes as a class on matters affecting the series C preferred stock and maintains voting rights identical to the common stock on all other matters.

There are 1,071,346 shares of series D convertible preferred stock outstanding. The series D preferred stock is convertible into common stock on a one-for-one basis, bears no dividend, maintains a liquidation preference averaging $0.50 per share, votes as a class on matters affecting the series D preferred stock and maintains voting rights identical to the common stock on all other matters.

Stock Purchase Warrants

At March 31, 2004, the Company had warrants outstanding to purchase the Company s common stock as outlined below:

Series	Number of Warrants	Exercise Price	Expiration Date
E	1,870,007	$0.85	July 18, 2005
F	1,309,441	$0.57	January 6, 2007

Other Equity Transactions

On February 25, 2004, the Company closed a private offering of 2,057,145 shares of its common stock at a price of $1.05 per share. Offering proceeds of $1,979,761, net of $180,239 in offering expenses, will be used to fund strategic initiatives and for general working capital purposes.

In June 2003, the Company closed a private offering of 4,000,000 shares of its common stock at a price of $0.50 per share. Total offering proceeds of $1,879,810, net of $120,190 in offering expenses, were used to fund strategic initiatives and for general working capital purposes.

In March 2004, 4,167 shares of series B preferred stock were converted into 4,167 shares of common stock. In July 2003, a total of 241,668 shares of series B, C and D preferred stock were converted into 241,668 shares of common stock.

11. Comprehensive (Loss) Income

The Company s comprehensive (loss) income was as follows:

	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003
Net (loss) income - as reported	$ (976,466)	$ 8,070
Other comprehensive (loss) income:		
Foreign currency translation adjustment	(27,241)	106,167
Comprehensive (loss) income	$(1,003,707)	$ 114,237

12. Operating Segments

The Company consists of three operating segments: wound care, wound closure-fasteners and skin care. Products in the wound care segment consist of basic and advanced dressings, ointments and sprays designed to treat wounds. Wound closure-fasteners products include wound closure strips, nasal tube fasteners, a variety of catheter fasteners and net dressings. The skin care segment consists of bath sponges, antibacterial skin cleansers, hair and body soaps, lotions and moisturizers designed to enable customers to implement and maintain successful skin care / hygiene programs.

Products in all three operating segments are marketed to long-term care facilities, hospitals, physicians, clinics, home health care agencies and other healthcare institutions. The manufacture of advanced wound care and wound closure-fastener products is primarily outsourced. Basic wound care and skin care products are manufactured in-house with the exception of the bath sponge line. Internally, the segments are managed at the gross profit level. The aggregation or allocation of other costs by segment is not practical.

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Segment sales and gross profit for the three months ended March 31, 2004 and 2003 are as follows:

Three Months Ended March 31, 2004

	Wound Care	Wound Closure-Fasteners	Skin Care	Other Costs	Total Company
Net sales	$3,609,348	$958,269	$ 461,805	-	$ 5,029,422
Gross profit	880,975	469,451	99,383	-	1,449,809
Total expenses	-	-	-	$(2,426,275)	(2,426,275)
Net loss					$ (976,466)
Net long-lived assets	$2,818,342	-	$1,338,848	$ 226,650	$ 4,383,839

Three Months Ended March 31, 2003

	Wound Care	Wound Closure-Fasteners	Skin Care	Other Costs	Total Company
Net sales	$2,810,985	$845,256	$559,998	-	$ 4,216,239
Gross profit	965,121	394,434	167,455	-	1,527,010
Total expenses	-	-	-	$(1,518,940)	(1,518,940)
Net income					$ 8,070
Net long-lived assets	$ 970,946	-	$1,274,758	$ 35,732	$ 2,281,436

Long-lived assets consist of property and equipment, patents and trademarks, other intangible assets and goodwill. Wound care long-lived assets consist principally of Dumex Medical Canada Inc., property and equipment and other intangible assets acquired in the Kimberly-Clark wound care asset acquisition and patents and trademarks. Wound closure-fasteners are for the most part outsourced and accordingly are not supported by long-lived assets. Skin care long-lived assets consist of goodwill associated with the acquisition of Sunshine Products, Inc. and property and equipment associated therewith. Corporate headquarters and the Company s U.S. distribution center property and equipment are included in the other costs column since they service all three business segments.

The following table presents net sales by geographic region.

	Three Months Ended March 31, 2004	2003
United States	56%	46%
Canada	40%	49%
Rest of world	4%	5%

13. Income Taxes

No provision for income taxes has been made in either the first quarter 2004 and 2003 given the Company s loss in 2004 and the available net operating loss carryforwards. A benefit has not been recorded as the realization of the net operating losses is not assured.

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DERMA SCIENCES, INC.

Notes To Consolidated Financial Statements

At December 31, 2003, the Company has net operating loss carryforwards of approximately $6,750,000 for federal income tax purposes that begin to expire in years 2012 through 2020. For state income tax purposes, the Company has net operating loss carryforwards of approximately $6,750,000 that expire in years 2004 through 2010. As of December 31, 2003, the Company has foreign net operating loss carryforwards of approximately $157,000 which begin to expire in 2009. The timing in which the Company can utilize its net operating loss carryforwards in any year or in total may be limited under the Internal Revenue Code section 382 regarding changes in ownership of corporations.

14. Distribution Agreement

As of November 23, 1999 the Company entered into a 4 year agreement to serve as the exclusive distributor in the United States for certain catheter fasteners. The manufacturer of the fasteners has given the Company the required nine months notice of its intention not to renew the agreement in its present form. Accordingly, the Company s rights under the current agreement will terminate on August 23, 2004. The parties are presently engaged in negotiations with a view to executing a new agreement. However, no assurance can be given that these negotiations will prove successful. Annual sales of catheter fasteners under the current agreement aggregate approximately $750,000.

15. Employee Termination Costs

On March 9, 2004 the Company terminated the employment of its Executive Vice President and President of its Dumex Medical Canada Inc. subsidiary. The Company has recorded an estimated charge of $450,000 representing severance, benefits and other costs associated with this termination. The charge was recorded against general administrative expense in the statement of operations. Given that the payout (if any) will be made over a period of up to twenty-four months, the liability has been recorded to the extent of $225,000 in other current liabilities and to the extent of $225,000 in other long-term liabilities in the balance sheet. The Company is presently investigating possible defenses to the payment of such severance and costs.

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

Quarter Ended March 31, 2004 Compared to Quarter Ended March 31, 2003.

Results of Operations

The first quarter 2004 and 2003 operating results include the financial results of Derma Sciences, Inc. and its subsidiaries. Unless otherwise indicated by the context, the term Dumex is used throughout this discussion in reference to the operations of Dumex Medical Canada Inc. and the term Derma is used throughout this discussion in reference to the operations of the Company excluding Dumex.

The following table highlights the 2004 and 2003 operating results:

	Quarter Ended March 31, 2004	Quarter Ended March 31, 2003	Variance	
Net sales	$5,029,422	$4,216,239	$ 813,183	19%
Gross profit	1,449,809	1,527,010	(77,201)	(5%)
Operating expenses	2,261,958	1,455,097	806,861	55%
Interest expense, net	46,667	113,439	(66,772)	59%
Other (income) expense, net	117,650	(49,596)	167,246	-
Total expenses	2,426,275	1,518,940	907,335	60%
(Loss) income before income taxes	(976,466)	8,070	(984,536)	-
Provision for income taxes	-	-	-	-
Net (loss) income	$ (976,466)	$ 8,070	$(984,536)	-

Net sales increased $813,183, or 19%, to $5,029,422 in the first quarter 2004 from $4,216,239 in the first quarter 2003. The increase in first quarter 2004 versus 2003 net sales is primarily attributable to Kimberly-Clark Corporation s wound care product sales, commencement of private label sales to distributors and strong growth of the recently introduced Silverlon product line. In addition, the first quarter 2004 versus 2003 benefited from higher sales in the United States of Dumex products in the United States, partially offset by lower sales of the Derma and Sunshine product lines. The increase in Dumex and private label wound care sales is a result of the Company s decision to focus a significant portion of its sales and marketing resources on expanding the U.S. business of these product lines. The decrease in Derma wound care sales in the first quarter of 2004 was principally attributable to an aggressive sales incentive program at the end of 2003 resulting in reduced sales of these products in the first quarter 2004. Sunshine product line sales decreased as a result of continuing market pressures.

Dumex Canada first quarter 2004 versus 2003 sales decreased 5% on a local currency basis. Dumex Canada wound care sales increased 10%, as a result of increased sales to hospital buying groups. The Dumex Canada private label line decreased 96% due to a loss of this business in early 2003 and a cessation of narcotics sales (versus $26,655 in 2003) due to the sale of this product line in December 2003. On a U.S. dollar basis, the first quarter 2004 Dumex Canada sales increased 9% to $1,995,253 from $1,833,741. This increase is primarily attributable to the strengthening of the Canadian versus the U. S. dollar comparing the first quarter 2004 versus 2003 quarterly average exchange rates.

Gross profit in the first quarter 2004 versus 2003 decreased $77,201, or 5%, to $1,449,809 versus $1,527,010. Overall gross profit percentages were 29% and 36% in 2004 and 2003, respectively. The decrease in the gross profit percentage is attributable to the increasingly higher percentage of lower margin Dumex and private label sales, a decrease in sales of the higher margin Derma product line (due to higher than normal customer inventory levels as a result of customer purchases associated with the 2003 year-end incentive program), higher traditional wound care costs and a $60,000 write-off of unsaleable inventory.

With respect to the Derma product lines, first quarter 2004 versus 2003 gross profit margins declined 19% in the Derma wound care line due to unfavorable product mix and a $60,000 write-off of unsaleable inventory and decreased 8% in the skin care product line due to the adverse impact of lower sales volume on operational efficiency and fixed overhead absorption. The Kimberly-Clark wound care product sales generated a first quarter 2004 gross margin of 24%.

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The Dumex product line gross margin improved in the first quarter of 2004 to 24% from 21% in 2003. This improvement is attributable to the strengthening of the Canadian versus United States dollar which favorably impacted sales and resulted in cost savings on U.S. dollar denominated inventory purchases which constitute a significant percentage of total Dumex product inventory cost.

Operating expenses increased $806,861, or 55%, to $2,261,958 in the first quarter of 2004 from $1,455,097 in the first quarter of 2003. Derma warehouse expenses increased 130% in 2004 primarily attributable to a one-time $50,000 expense provision to close the Old Forge, Pennsylvania distribution center effective March 31, 2004, and start-up costs for the new Fenton, Missouri distribution center that became operational in early March 2004.

Derma marketing expenses increased 88% in 2004 versus 2003 as a result of the hiring of a marketing director, along with increased trade show and promotional activities. In 2004, Derma selling expenses increased 19% primarily reflecting higher compensation relating to the annualized impact of 2003 staff additions and higher sampling costs. Derma general and administrative expenses increased 25% in 2004 versus 2003 primarily reflecting higher insurance, legal, public relations and recruitment costs.

Dumex operating expenses increased 100% principally as a result of a $450,000 provision for severance, benefits and other costs associated with the discharge of the former Dumex President. Excluding this charge, first quarter 2004 versus 2003 expenses declined 11% on a local currency basis and increased 1% on a U.S. dollar basis. The first quarter 2004 decline in operating expenses on a local currency basis reflects closure of Dumex s U.S. distribution facility in June 2003 as part of the U.S. distribution rationalization and a reduction in customer service costs as resources dedicated to support the U.S. business were eliminated in the second quarter 2003 in connection with the transfer of this responsibility to the U.S. These savings were partially offset by higher selling expenses to more aggressively promote Dumex s product in the Canadian market.

Interest expense, net decreased $66,772 to $46,667 in the first quarter of 2004 from $113,439 in 2003. The decrease is principally attributable to the February 2003 termination of the Company s existing U.S. line of credit facility resulting in the write-off of $66,342 of deferred financing costs.

Other expense, net increased $167,246 to $117,650 in the first quarter 2004 from $49,596 income in the first quarter 2003. The change is primarily attributable to the incurrence in 2004 of a $94,428 loss on disposal of fixed assets. The first quarter 2003 other income was driven by one-time items relating primarily to an IRS payroll tax settlement and slow-moving inventory sales that were not repeated in 2004.

Given available net operating loss carryforwards, no provision for income taxes has been made in the first quarters of 2004 and 2003. A benefit has not been recorded as the realization of the net operating losses is not assured.

The Company incurred a $976,466 loss or ($0.11) per share (basic and diluted) in the first quarter 2004, compared to net income of $8,070 or $0.00 per share (basic and diluted) in the first quarter 2003.

Liquidity and Capital Resources

At March 31, 2004 and December 31, 2003, the Company had cash and cash equivalents of $184,918 and $439,837, respectively. The $254,919 decrease in cash resulted from net cash used in operating activities of $1,319,517 and net cash used in investing activities of $512,390, partially offset by net cash provided by financing activities of $1,582,564. Excluding $1,001,125 of restricted cash set aside to collateralize the Kimberly-Clark note payable, net cash used in operating activities was $318,392. This net use of cash stems principally from the net loss experienced in the first quarter, offset by non-cash charges and cash generated from the net change in operating assets and liabilities.

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A planned increase in inventory to support sales growth, partially offset by a corresponding increase in accounts payable, were the major factors behind the favorable change in operating assets and liabilities. The $450,000 charge for employee termination costs recorded as an accrued liability also contributed to the quarters loss. Net cash used in investing activities relates to $376,510 cash paid during the quarter incident to acquisition of the Kimberly-Clark Corporation wound care assets and $135,880 for purchases of property and equipment. Net cash provided by financing activities consisted of net proceeds of $1,979,761 from the sale of common stock during the quarter, offset by line of credit and term loan debt repayment of $336,580 and deferred financing costs of $60,617 related to annual fees associated with the U.S. line of credit and outstanding letters of credit.

Working capital decreased $737,222 at March 31, 2004 to $4,099,746 from $4,836,968 at December 31, 2003. Coupled with the overall decrease in cash, the main factors behind the decrease in working capital are the $1,566,000 seller financed Kimberly-Clark Corporation note payable due on or before December 31, 2004 offset by the increase in restricted cash of $1,001,125 which has been set aside to pay this note.

The Company renewed its revolving credit facility agreement to fund Dumex s day-to-day operations on December 31, 2003. Maximum potential advances under the agreement at March 31, 2004 were $1,462,000. Advances outstanding against the credit facility were $1,051,024 at March 31, 2004, leaving an additional $410,976 available for borrowing. The $450,000 charge for employee termination costs resulted in Dumex being out of compliance with certain of its loan covenants. The Canadian bank agreed to waive the covenant violations at March 31, 2004 and adjust the covenants prospectively. The Company anticipates that it will be able to comply with the adjusted covenants for the foreseeable future.

On January 9, 2004, the Company purchased the Kimberly-Clark Corporation wound care assets for total consideration to date of $1,942,510. The consideration consisted of cash of $376,510 and a seller financed, non interest bearing promissory note due on or before December 31, 2004 of $1,566,000. The cash outlay consisted of $300,100 paid at closing and $76,410 for acquisition related costs. Future acquisition related costs are not expected to be significant. The equipment purchased will be transferred and installed in the Company s manufacturing facility in Toronto, Canada in the second quarter 2004. Estimated costs, the majority of which will be capitalized, to complete the transfer, installation and validation of the equipment are $560,000.

Kimberly-Clark Corporation manufactured wound care products, for the account of the Company, at its facility through April 9, 2004 to meet current customer demand and to build sufficient inventory to cover the period during which production at the Kimberly-Clark facility is discontinued and the equipment is transferred to the Company s facility in Toronto, Canada. Upon cessation of manufacturing at Kimberly-Clark s facility, the Company plans to purchase inventory consisting of specified raw and packaging materials and up to four months supply of finished goods. The purchase price of this inventory is estimated to be $600,000.

On January 30, 2004 the Company entered into a new one year line of credit agreement with its U.S. lender. The maximum principal amount of the line increased to $4,000,000 from $3,000,000. Estimated maximum potential advances under the agreement are equal to the lesser of (a) $4,000,000, or (b) the sum of (i) 80 % of eligible receivables (as defined), (ii) 50% of eligible inventory (as defined), (iii) an amount equal to the immediate liquidation value of funds deposited with the U.S. lender in a restricted account as security for any letters of credit extended by the lender on the Company s behalf up to $1,000,000, less the aggregate of any outstanding letters of credit issued by the lender. All other items and conditions of the agreement remained unchanged. In connection with entering into the new line of credit agreement, the Company deposited cash in the amount of $1,000,000 in a restricted account with the U.S. lender and the lender issued an irrevocable standby letter of credit on the Company s behalf for the benefit of Kimberly-Clark Corporation in the amount of $1,566,000. Total letters of credit outstanding at March 31, 2004 were $1,766,000.

Estimated maximum potential advances under the new line of credit agreement at March 31, 2004 were $1,120,000. There are presently no advances outstanding against the line of credit. Advances will be utilized for general working capital purposes and to fund capital improvements. The restricted cash of $1,000,000, together with cash on hand or available line borrowing capacity, will be utilized to pay the $1,566,000 Kimberly-Clark Corporation promissory note due December 31, 2004.

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The first quarter 2004 operating loss resulted in the Company being out of compliance with certain U.S. line of credit covenants at March 31, 2004. The U.S. lender agreed to waive the covenant violations at March 31, 2004 and adjust the covenants prospectively. The Company anticipates that it will be able to comply with the adjusted covenants for the foreseeable future.

On February 25, 2004, the Company closed a private offering of 2,057,145 shares of its common stock at a price of $1.05 per share. Offering proceeds will be used to fund the acquisition of the Kimberly-Clark Corporation wound care assets and for general working capital purposes. Offering proceeds of $1,979,761, net of offering expenses of $180,239, have been received.

On March 9, 2004 the Company terminated the employment of its Executive Vice President and President of its Dumex Medical Canada, Inc subsidiary. The Company has recorded an estimated charge of $450,000 representing severance, benefits and other costs associated with this termination. The Company is presently investigating possible defenses to the payment of such severance and costs. Payout (if any) will be made over a period of up to twenty-four months.

During the first quarter 2004, the Company entered into capital and operating leases totaling $290,300 with terms ranging from three to five years for equipment at the new distribution center that opened in March 2004 and upgrades to the Company-wide telecommunications and information technology equipment.

Prospectively, the Company seeks to increase sales and return to profitability by, among other initiatives, completing the integration of the Kimberly-Clark Corporation wound care assets in to the Company s operations, increasing the sale of contracted private label products to distributors, increasing in-house manufacture of selected products presently purchased from third parties, continuing growth of Dumex product line sales in the U.S. and focusing on organic growth of its core product lines in the U.S. and Canada. Incremental capital will be required to support planned sales growth and the upgrade of the Company s manufacturing capabilities and cost effectiveness.

Sales and profitability are projected to improve over the balance of the year. Operating expenses will be closely monitored and balanced with gross margin growth.

Among the sources of capital the Company expects to utilize to finance its growth plans are improved profitability, close management of working capital requirements and prudent utilization of available lines of credit and leasing. Strategically, the Company s plan is to stay focused on its base business while evaluating external opportunities to leverage its core capabilities for growth. The Company believes that available funds from operations coupled with its available lines of credit will be sufficient to satisfy the Company s capital requirements for the foreseeable future.

The Common Stock of the Company is traded on the OTC Bulletin Board under the symbol DSCI.OB. The Common stock is also traded on the Boston and Pacific Stock Exchanges under the symbol DMS. The Company has paid no cash dividends in respect of its Common Stock and does not intend to pay cash dividends in the near future.

Additional Financial Information

Forward Looking Statements

Statements that are not historical facts, including statements about the Company s confidence, strategies, expectations about new or existing products, technologies, opportunities, market demand or acceptance of new or existing products are forward-looking statements that involve risks and uncertainties. These uncertainties include, but are not limited to, product demand and market acceptance risk, impact of competitive products and prices, product development, commercialization or technological delays or difficulties, and trade, legal, social, financial and economic risks.

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Critical Accounting Policies

Estimates and assumptions are required in the determination of sales deductions for trade rebates, discounts and allowances. Significant estimates and assumptions are also required in determining the appropriateness of amortization periods for identifiable intangible assets, the potential impairment of goodwill and the valuation of inventory. Some of these judgments can be subjective and complex, and, consequently, actual results may differ from these estimates. For any individual estimate or assumption made by us, there may also be other reasonable estimates or assumptions. We believe, however, that given current facts and circumstances, it is unlikely that applying any such other reasonable judgment would cause a material adverse effect on our consolidated results of operations, financial position or cash flows for the periods represented in this section. Our most critical accounting policies are described below:

Revenue Recognition and Adjustments to Revenue

Revenue is recognized when product is shipped and title passes to the customer. When we recognize revenue from the sale of our products, we simultaneously adjust revenue for estimated trade rebates. A trade rebate represents the difference between our invoice price to the wholesaler and the indirect customer s contract price. These rebates are estimated based on historical experience, estimated future trends, estimated customer inventory levels, current contract sales terms with our wholesale and indirect customers and other competitive factors. If the assumptions we used to calculate these rebates do not appropriately reflect future activity, our financial position, results of operations and cash flows could be impacted. We continually monitor the factors that influence these rebates and make adjustments as necessary.

Goodwill

At March 31, 2004, the Company s skin care segment had $1,110,967 of goodwill. The Company tests goodwill for impairment in the fourth quarter of each year or when impairment indicators are present. The process of evaluating the potential impairment of goodwill is highly subjective and requires significant judgments and assumptions in estimating future cash flows to determine the fair value of the reporting unit. These assumptions include future growth rates, discount factors, future tax rates and other factors. The Company s cash flow forecasts are based on assumptions that are consistent with the plans and estimates used to manage the underlying business. In addition, the Company makes certain judgments about allocating shared assets to the balance sheet for this segment. If the expected cash flows are not realized, impairment losses may be recorded in the future.

Inventory

The Company writes down the value of inventory by the estimate of the difference between the cost of the inventory and its net realizable value. The estimate takes into account projected sales of the inventory on hand and the age of the inventory in stock. If actual future demand or market conditions are less favorable than those projected by management, additional inventory write-downs may be required. The provision for the write-down of inventory is recorded in cost of sales.

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Item 3. CONTROLS AND PROCEDURES

The Company s management, including the Chief Executive Officer and Chief Financial Officer, have conducted an evaluation of the effectiveness of disclosure controls and procedures pursuant to Exchange Act Rule 13a-14. Based on the evaluation, the Chief Executive Officer and Chief Financial Officer concluded that the disclosure controls and procedures are effective in ensuring that all material information required to be filed in this quarterly report has been made known to them in a timely fashion. There have been no significant changes in internal controls, or in factors that could significantly affect internal controls, subsequent to the date the Chief Executive Officer and Chief Financial Officer completed their evaluation.

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Part II Other Information

Item 1. Legal Proceedings

None

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits. All exhibits required by Item 601 of Regulation S-B and required hereunder, as filed with the Securities and Exchange Commission in Form 10-KSB on March 31, 2004, are incorporated herein by reference.

Exhibit	Description
31.1	Certification of the Principal Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
31.2	Certification of the Principal Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002
32.1	Certification of Principal Executive Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2	Certification of Principal Financial Officer pursuant to U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002

(b) Reports on Form 8-K. Form 8-K was filed on January 23, 2004, and amended on January 26, 2004, February 6, 2004 and March 23, 2004, relative to the Registrant s acquisition of the wound care assets of Kimberly-Clark Corporation. Form 8-K was filed on March 8, 2004, relative to the Registrant s consummation of a private placement of its securities.

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

DERMA SCIENCES, INC.

By: /s/ John E. Yetter
John E. Yetter, CPA
Chief Financial Officer

Dated: May 14, 2004