

DERMA SCIENCES, INC.
Form 10-Q
November 12, 2010

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2010

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

For the transition period from _____ to _____

Commission file number 1-31070

Derma Sciences, Inc.
(Exact name of registrant as specified in its charter)

Pennsylvania
(State or other jurisdiction of Incorporation)

23-2328753
(IRS employer identification number)

214 Carnegie Center, Suite 300
Princeton, NJ 08540
(Address of principal executive offices)

(609) 514-4744
(Issuer's telephone number)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

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Yes No

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Date: November 11, 2010 Class: Common Stock, par value \$.01 per share
Shares Outstanding: 6,561,826

PART I – FINANCIAL INFORMATION

DERMA SCIENCES, INC.

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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.

Part I – Financial Information

Item 1. FINANCIAL STATEMENTS

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DERMA SCIENCES, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

	September 30, 2010 (Unaudited)	December 31, 2009
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 409,505	\$ 243,524
Accounts receivable, net	5,361,264	3,372,712
Inventories	13,579,298	11,489,724
Prepaid expenses and other current assets	456,337	456,675
Total current assets	19,806,404	15,562,635
Cash – restricted	-	2,032,164
Equipment and improvements, net	3,412,650	3,741,347
Goodwill	7,119,726	7,119,726
Other intangible assets, net	7,254,725	3,994,250
Other assets, net	341,110	849,753
Total Assets	\$ 37,934,615	\$ 33,299,875
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities		
Line of credit borrowings	3,658,625	2,306,306
Current maturities of long-term debt	14,503	1,759,185
Accounts payable	4,240,277	3,363,096
Accrued expenses and other current liabilities	2,305,193	1,342,467
Total current liabilities	10,218,598	8,771,054
Long-term debt	-	2,305,851
Other long-term liabilities	69,671	96,564
Deferred tax liability	321,323	355,349
Total Liabilities	10,609,592	11,528,818
Shareholders' Equity		
Convertible preferred stock, \$.01 par value; 1,468,750 shares authorized; issued and outstanding: 284,844 shares (liquidation preference of \$4,201,426 at September 30, 2010)	2,848	2,851
Common stock, \$.01 par value; 18,750,000 authorized; issued and outstanding: 6,561,826 at September 30, 2010; 5,039,468 at December 31, 2009	65,618	50,395
Additional paid-in capital	48,620,586	41,221,613
Accumulated other comprehensive income – cumulative translation adjustments	1,413,377	1,303,293
Accumulated deficit	(22,777,406)	(20,807,095)
Total Shareholders' Equity	27,325,023	21,771,057
Total Liabilities and Shareholders' Equity	\$ 37,934,615	\$ 33,299,875

See accompanying consolidated notes.

DERMA SCIENCES, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Operations (Unaudited)

	Three Months ended September 30,	
	2010	2009
Net Sales	\$ 15,096,134	\$ 12,882,425
Cost of sales	10,666,204	8,838,154
Gross Profit	4,429,930	4,044,271
Operating Expenses		
Selling, general and administrative	4,690,054	3,677,182
Research and development	175,380	70,412