



# TAGLICH BROTHERS

The Standard of Excellence in the Microcap Market

Member: FINRA, SIPC

## Earnings Note

*Investors should consider this report as only a single factor in making their investment decision.*

**Derma Sciences, Inc.**

**Rating: Speculative Buy**

Juan Noble

**DSCI \$0.44 — (OTC BB)**

April 2, 2009

*Derma Sciences, Inc. (DSCI) manufactures wound care, wound closure fasteners and skin care products for sale to healthcare institutions, physicians' offices, home healthcare agencies and pharmacies, mainly in the US and Canada.*

2008 4Q results (\$ millions), derived from a 10-K filing on March 31, 2009, and our 4Q estimates, are as follows:

	Quarter Ending December 31			% $\Delta$ '08 vs. '07
	2008A	2008E	2007A	
Sales	12.56	13.10	10.65	17.9%
Cost of sales	8.40	8.69	7.23	16.2%
Gross Profit	4.15	4.41	3.42	21.4%
Operating expenses				
Distribution	0.44	0.39	0.39	14.6%
Marketing	0.37	0.58	0.46	(20.1%)
Sales	1.17	1.51	1.23	(4.6%)
G&A	2.04	2.10	1.77	15.3%
R&D	0.41	0.28	0.99	
Operating expenses	4.44	4.85	4.84	(8.3%)
Operating income (loss)	(0.28)	(0.44)	(1.42)	NM
Interest exp (income) net	0.19	0.10	0.27	NM
Loss on debt extinguishment	0.00		0.26	
Other exp (income)	0.05	(0.02)	0.04	NM
Pre-tax profit (loss)	(0.52)	(0.52)	(1.98)	NM
Income taxes (benefit)	0.06		0.07	NM
Net income (loss)	(0.58)	(0.52)	(2.05)	NM
Avg. shares out. (mil)	40.17	40.39	30.29	
Earnings per share - diluted	(0.01)	(0.01)	(0.07)	NM
Margin analysis				
Gross margin	33.1%	33.7%	32.1%	
Distribution	3.5%	3.0%	3.6%	
Marketing	2.9%	4.4%	4.3%	
Sales	9.3%	11.5%	11.6%	
R&D	3.3%	2.1%	9.3%	
G&A	16.2%	16.0%	16.6%	
Operating income (loss)	(2.2%)	(3.3%)	(13.3%)	
Pretax income (loss)	(4.1%)	(4.0%)	(18.6%)	
Net income (loss)	(4.6%)	(4.0%)	(19.2%)	

Source: Company reports and Taglich Brothers estimates

*\* Please view our disclaimer located on page 5.*

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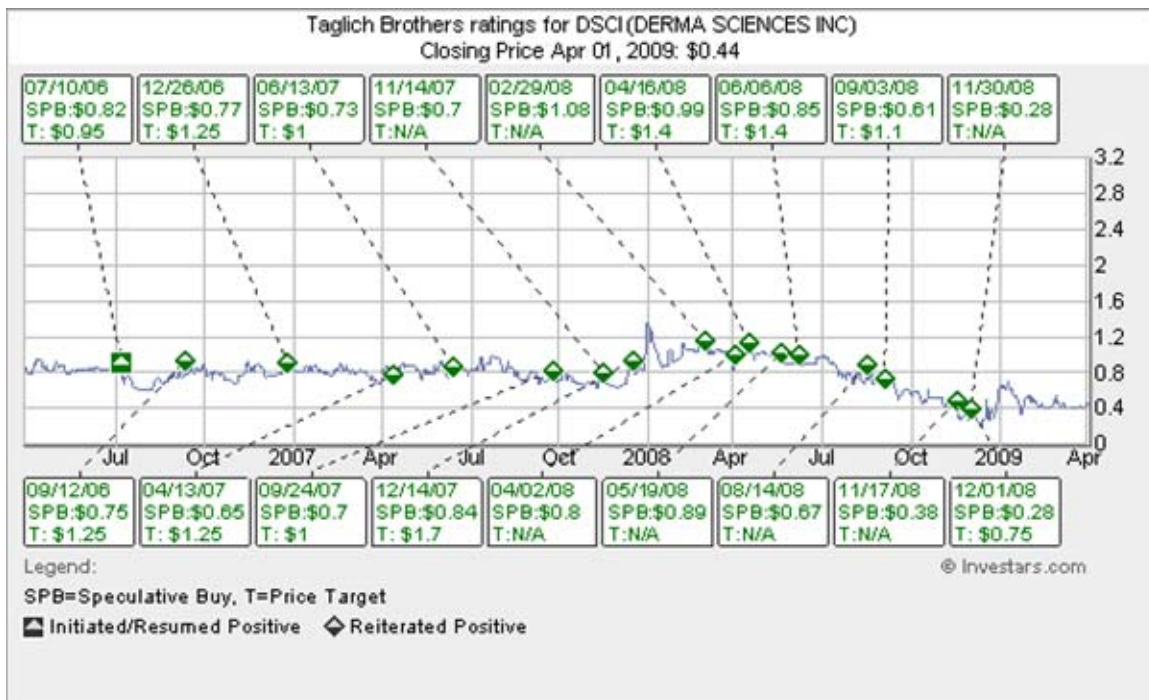
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[www.taglichbrothers.com](http://www.taglichbrothers.com)

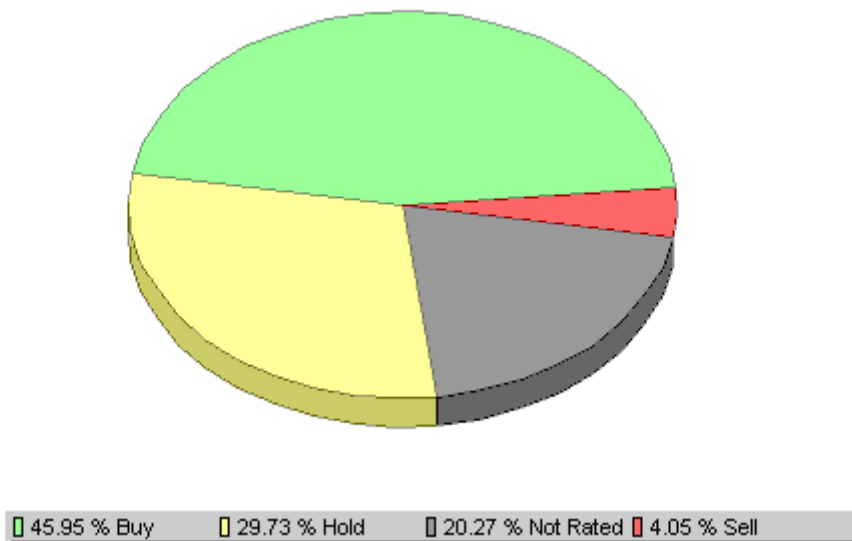
**Estimate Comment:** 4Q loss of (\$0.01) was in line with our projection. The shortfall in revenue (relative to projections) was offset by lower than estimated operating expenses. Our 4Q projections did not include a provision for income taxes.

**Rating:** Reiterate Speculative Buy

**Risks:** Please review our latest research report (December 1, 2008) for a summary of the principal risks underlying the stock.



Taglich Brothers Current Ratings Distribution



Investment Banking Services for Companies Covered in the Past 12 Months		
Rating	#	%
Buy	2	7.41%
Hold	0	0
Sell	0	0
Not Rated	0	0

Meaning of Ratings

Buy

We believe the Company is undervalued relative to its market and peers. We believe its risk reward ratio strongly advocates purchase of the stock relative to other stocks in the marketplace. Remember, with all equities there is always downside risk.

Speculative Buy

We believe that the long run prospects of the Company are positive. We believe its risk reward ratio advocates purchase of the stock. We feel the investment risk is higher than our typical “buy” recommendation. In the short run, the stock may be subject to high volatility and continue to trade at a discount to its market.

Neutral

We will remain neutral pending certain developments.

Underperform

We believe that the Company may be fairly valued based on its current status. Upside potential is limited relative to investment risk.

Sell

We believe that the Company is significantly overvalued based on its current status. The future of the Company's operations may be questionable and there is an extreme level of investment risk relative to reward.

**Some notable Risks within the Microcap Market**

**Stocks in the Microcap segment of the market have many risks that are not as prevalent in Large-cap, Blue Chips or even Small-cap stocks. Often it is these risks that cause Microcap stocks to trade at discounts to their peers. The most common of these risks is liquidity risk, which is typically caused by small trading floats and very low trading volume which can lead to large spreads and high volatility in stock price. In addition, Microcaps tend to have significant company specific risks that contribute to lower valuations. Investors need to be aware of the higher probability of financial default and higher degree of financial distress inherent in the microcap segment of the market.**

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From time to time our analysts may choose to withhold or suspend a rating on a company. We continue to publish informational reports on such companies; however, they have no ratings or price targets. In general, we will not rate any company that has too much business or financial uncertainty for our analysts to form an investment conclusion, or that is currently in the process of being acquired.

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In April 2006, Taglich Brothers underwrote an offering of 7,548,064 Derma Sciences' common shares at \$0.60 per share and 1,887,016 warrants exercisable at \$1.00 per share. Taglich Brothers employees acquired 754,806 warrants, distributed as follows: Michael Taglich (194,312), Robert Taglich (194,312), Vincent Palmieri (100,000), Michael Brunone (52,000), Douglas Hailey (44,182), Richard Oh (30,000), Robert Schroeder (20,000) and Russell Bernier (20,000). As of the date of this report, Michael Taglich owned or controlled 516,800 shares of common stock.

All research issued by Taglich Brothers, Inc. is based on public information. The company paid a monetary engagement fee of \$21,000 (USD) for the first year of creation and dissemination of research reports and since August, 2007, pays a monthly monetary fee of \$1,750 (USD) to Taglich Brothers, Inc. for these services.

**I, Juan Noble, the research analyst of this report, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities and issuers; and that no part of my compensation was, is, or will be directly or indirectly related to the specific recommendations or views contained in this report.**