

DERMA SCIENCES, INC.  
Form DEF 14A  
April 09, 2015

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**SCHEDULE 14A INFORMATION**

**Proxy Statement Pursuant to Section 14(a) of the  
Securities Exchange Act of 1934**

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o  
Check the appropriate box:

o Preliminary Proxy Statement  
 o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**  
 x Definitive Proxy Statement  
 o Definitive Additional Materials  
 o Soliciting Material Pursuant to 240.14a-11(c) or 240.14a-12

**DERMA SCIENCES, INC.**

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required  
 o Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.  
1. Title of each class of securities to which transaction applies:  
2. Aggregate number of securities to which transaction applies:

3. Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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1. Amount Previously Paid:

2. Form, Schedule or Registration Statement No.:

3. Filing Party:

4. Date Filed:

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214 Carnegie Center  
Suite 300  
Princeton, New Jersey 08540

## NOTICE OF ANNUAL MEETING OF STOCKHOLDERS TO BE HELD MAY 27, 2015

To the Stockholders of Derma Sciences, Inc.:

The Annual Meeting of Stockholders (the Meeting ) of Derma Sciences, Inc., a Delaware corporation (the Company ), will be held on May 27, 2015, at 3:30 pm, at the offices of the Company, 214 Carnegie Center, Suite 300, Princeton, New Jersey, for the following purposes:

1. To elect eight directors for the year following the Meeting or until their successors are elected;
2. To advise us as to whether you approve the compensation of our named executive officers (Say-on-Pay);
3. To consider and vote upon ratification of the appointment of KPMG LLP as our independent registered public accounting firm for the fiscal year ending December 31, 2015; and
4. To transact such other business as may properly come before the Meeting or any adjournments or postponements thereof.

Only stockholders of record at the close of business on March 30, 2015, are entitled to notice of and to vote at the Meeting and at any adjournments or postponements of the Meeting.

All stockholders are cordially invited to attend the Meeting in person. Whether or not you plan to attend the Meeting, your vote is important. In an effort to facilitate the voting process, we are pleased to avail ourselves of Securities and Exchange Commission rules that allow proxy materials to be furnished to stockholders on the Internet. You can vote by proxy over the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials that was mailed to you on or about April 9, 2015, or, if you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone. Your promptness in voting by proxy will assist in its expeditious and orderly processing and will assure that you are represented at the Meeting. Proxies are being solicited on behalf of the Board of Directors. If you vote by proxy, you may nevertheless attend the Meeting and vote your shares in person.

**TO ENSURE YOUR REPRESENTATION AT THE MEETING, YOU ARE URGED TO READ THIS PROXY STATEMENT AND SUBMIT YOUR PROXY OR VOTING INSTRUCTIONS AS SOON AS POSSIBLE BY FOLLOWING THE INSTRUCTIONS IN THE NOTICE OF INTERNET AVAILABILITY OF PROXY MATERIALS, WHICH WAS MAILED TO YOU ON OR ABOUT APRIL 9, 2015, OR, IF YOU REQUEST PRINTED COPIES OF THE PROXY MATERIALS BY MAIL, YOU CAN ALSO VOTE BY MAIL OR BY TELEPHONE.**

By Order of the Board of Directors,  
DERMA SCIENCES, INC.  
/s/ Edward J. Quilty  
Chairman of the Board, President and  
Chief Executive Officer

**DERMA SCIENCES, INC.  
214 Carnegie Center  
Suite 300  
Princeton, New Jersey 08540**

**ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD MAY 27, 2015**

**PROXY STATEMENT**

The Board of Directors (the Board or the Board of Directors ) of Derma Sciences, Inc. (the Company, Derma Sciences, we, us or our ) has made these materials available to you on the Internet, or, upon your request, has delivered printed versions of these materials to you by mail, in connection with the Board's solicitation of proxies for use at its Annual Meeting of Stockholders (the Meeting ) to be held at 3:30 pm, on Wednesday, May 27, 2015, at the offices of the Company, 214 Carnegie Center, Suite 300, Princeton, New Jersey, 08540, and at any adjournments thereof. The purpose of the Meeting and the matters to be acted upon are set forth under the headings *Proposal 1 Election of Directors*, *Proposal 2 Advisory Vote on the Compensation of Our Named Executive Officers* and *Proposal 3 Ratification of Appointment of Independent Registered Public Accounting Firm* below and in the Notice of Annual Meeting of Stockholders. Stockholders are requested to promptly vote by proxy over the Internet by following the instructions provided in the Notice of Internet Availability of Proxy Materials, which was mailed to you on or about April 9, 2015. If you request printed copies of the proxy materials by mail, you can also vote by mail or by telephone.

The close of business on March 30, 2015, has been fixed as the record date (the Record Date ) for the determination of stockholders entitled to notice of, and to vote at, the Meeting. On the Record Date, the Company had the following shares issued, outstanding and entitled to vote:

25,707,657 shares of common stock, par value \$0.01 per share ( Common Stock );  
18,598 shares of Series A Convertible Preferred Stock (the Series A Preferred Stock ); and  
54,734 shares of Series B Convertible Preferred Stock (the Series B Preferred Stock, together with the Series A Preferred Stock, the Preferred Stock ).

The foregoing shares of Common Stock and Preferred Stock are collectively referred to herein as the Shares. Holders of the Shares are entitled to one vote for each share held of record. The Shares are the only voting securities of the Company.

The presence at the Meeting, in person or by proxy, of the holders of 12,890,495 Shares (a majority of the aggregate number of shares of Common Stock and Preferred Stock issued and outstanding and entitled to vote as of the Record Date) is necessary to constitute a quorum to transact business. Proxies marked ABSTAIN and Broker Non-Votes (as defined below), if any, will be counted in determining the presence of a quorum.

If the on-line or paper form of proxy is executed properly and submitted, Shares represented by it will be voted at the Meeting in accordance with the instructions on the proxy. However, if no instructions are specified, Shares will be

voted **FOR** the election as directors of those nominees named in the proxy, **FOR** the compensation of our named executive officers and **FOR** ratification of the selection of KPMG LLP as our independent registered public accounting firm for the year ending December 31, 2015. The Board knows of no matters which are to be presented for consideration at the Meeting other than those specifically described herein and in the Notice of Annual Meeting of Stockholders, but if other matters are properly presented, it is the intention of the persons designated as proxies to vote on them in accordance with their judgment.

If your Shares are held in street name and you do not provide voting instructions to the broker or other nominee that holds your Shares, the broker or other nominee has the authority, even if it does not receive instructions from you, to vote your unvoted Shares for Proposal No. 3, the ratification of our independent public accountant, but does not have authority to vote your unvoted Shares for Proposal No. 1, the election of directors or Proposal No. 2, the advisory vote on the compensation of our named executive officers. We

encourage you to provide voting instructions. This ensures your Shares will be voted at the Meeting in the manner you desire. If your broker cannot vote your Shares on a particular matter because it has not received instructions from you and does not have discretionary voting authority on that matter or because your broker chooses not to vote on a matter for which it does have discretionary voting authority, this is referred to as a broker non-vote ( Broker Non-Votes ).

A proxy may be revoked at any time prior to the time it is voted by written notice to the Secretary of the Company at the above address or by submission of a proxy bearing a later date. Any stockholder may attend the Meeting and vote in person whether or not a proxy was previously submitted.

For Proposal No. 1, the nominees for director who receive the most votes (also known as a plurality) will be elected. You may vote either FOR all of the nominees, WITHHOLD your vote from all of the nominees or WITHHOLD your vote from any one of the nominees. Votes that are withheld will not be included in the vote tally for the election of directors. Abstentions and Broker Non-Votes, if any, will not be counted as having been voted and will have no effect on the election of directors, except to the extent the failure to vote for a nominee results in another nominee receiving a larger number of votes.

Adoption of Proposal No. 2 requires that the votes cast in favor of the proposal exceed the votes cast against the proposal. Abstentions and Broker Non-Votes will not be counted as either votes cast for or against this proposal.

Adoption of Proposal No. 3 requires the affirmative vote of a majority of the total number of votes cast for this proposal. In determining whether Proposal No. 3 has received the requisite number of affirmative votes, abstentions will be counted and will have the same effect as a vote against the proposals, and Broker Non-Votes, if any, will have no effect on the votes for the proposal.

**The Notice of Annual Meeting, this proxy statement (this Proxy Statement ), the accompanying proxy card and our Annual Report on Form 10-K are being made available on the Internet at <https://materials.proxyvote.com/249827> through the notice and access process and, upon request, mailed to our stockholders on or about April 9, 2015.** The expense of solicitation will be borne by the Company. The solicitation of proxies will be largely by mail, but may include telephonic, telegraphic or oral communications by officers or other representatives of the Company. The Company will also reimburse brokers or other persons holding Shares in their names or in the names of their nominees for reasonable out-of-pocket expenses in connection with forwarding proxies and proxy materials to the beneficial owners of such Shares.

## PROPOSAL 1 ELECTION OF DIRECTORS

A board of eight directors will be elected at the Meeting by the stockholders of the Company to hold office until their successors have been elected and qualified. C. Richard Stafford, Esq., a current member of the Board, will not stand for re-election at the Meeting when his term expires. Therefore, effective upon election of the Board at the Meeting, Mr. Stafford will no longer be a member of the Board of Directors or any committee thereof. Samuel E. Navarro was recommended for nomination by Broadfin Capital, LLC, one of our major stockholders, as approved by the Nominating and Corporate Governance Committee. Mr. Navarro was nominated for election by the full Board to serve as a director effective May 2015.

It is intended that, unless authorization to do so is withheld, the proxies will be voted **FOR** the election of the director nominees named below. Each nominee has consented to be named in this Proxy Statement and to serve as a director if elected. However, if any nominee becomes unable to stand for election as a director at the Meeting, an event not now anticipated by the Board, the proxy will be voted for a substitute designated by the Board.

The nominees are listed below with brief statements of their principal occupation and other information:

Name of Nominee	Age	Director Since	Principal Occupation
Edward J. Quilty	64	March 1996	Chairman of the Board, President and Chief Executive Officer of the Company
Srini Conjeevaram <sup>(1)(3)</sup>	56	May 1998	Director, Managing Director of SC Capital Management, LLC
Stephen T. Wills, CPA, MST <sup>(2)(3)</sup>	58	May 2000	Lead Director, Executive Vice President, Chief Financial Officer and Chief Operating Officer of Palatin Technologies, Inc.
Robert G. Moussa <sup>(4)(5)</sup>	68	May 2005	Director, President and Chief Executive Officer of Dilon Technologies, Inc.
Bruce F. Wesson <sup>(1)(6)</sup>	72	May 2006	Vice Lead Director, Galen Partners Founder and Senior Advisor
Brett D. Hewlett	52	February 2010	Director, Chief Executive Officer of Comvita Limited
Amy Paul <sup>(3)(5)</sup>	63	May 2013	Director, Former Group Vice President International of C.R. Bard, Inc.
Samuel E. Navarro	59		Director, Managing Partner at Gravitas Healthcare

(1) Member, Audit Committee.

(2) Chairman, Audit Committee.

(3) Member, Compensation Committee.

(4) Chairman, Compensation Committee.

(5) Member, Nominating and Corporate Governance Committee.

(6) Chairman, Nominating and Corporate Governance Committee.

## Information Relative to Directors and Nominees

**Edward J. Quilty** has served as our Chief Executive Officer since November 1998, Chairman of the Board since May 1996 and as a director since March 1996. In September 2013, Mr. Quilty was appointed as a director of Comvita Limited ( Comvita ), a publicly listed natural products and life sciences company headquartered in New Zealand (NZSX:CVT). Mr. Quilty was the Chairman of the Board of Palatin Technologies, Inc., a publicly traded biopharmaceutical company specializing in peptide drug design for diagnostic and therapeutic agents, from November 1995 until May 2000. During the period November 1998 through May 2000, Mr. Quilty held the Chief Executive Officer positions at both Derma Sciences and Palatin Technologies, Inc. From July 1994 through November 1995, he was President and Chief Executive Officer of MedChem Products, Inc., a publicly traded developer and manufacturer of specialty medical products which was acquired by C. R. Bard, Inc. in November 1995. From March 1992 through July 1994, Mr. Quilty served



as President and Chief Executive Officer of Life Medical Sciences, Inc., a publicly traded developer and manufacturer of specialty medical products including wound healing agents. The assets of Life Medical Sciences were purchased by MedChem Products, Inc. During the period January 1987 through September 1991 Mr. Quilty served as Vice President Sales and Marketing, and later as Executive Vice President (in which capacity he shared the office of the President), with McGaw Laboratories, a pharmaceutical and medical device company. Previously, he served from 1974 in a variety of sales, marketing and management positions with Baxter/American Hospital Supply Corporation. Mr. Quilty has over 40 years of experience in the healthcare industry primarily in strategic planning, management and sales and marketing. He earned a Bachelor of Science degree from Missouri State University, Springfield, Missouri in 1973 and a Master of Business Administration degree from Ohio University, Athens, Ohio in 1987.

We believe that Mr. Quilty's qualifications to serve on our Board of Directors include his over fifteen years of industry and management experience with our Company and his extensive expertise in the wound care and specialty medical products industry.

**Srini Conjeevaram** has served as a director of Derma Sciences since May 1998. Mr. Conjeevaram is Vice President of Hospital Partnerships at Penumbra, Inc., a neurovascular medical device company. Mr. Conjeevaram is also Managing Director of SC Capital Management, LLC, a management company that manages growth-equity fund investments in privately-held healthcare companies. From 1991 through March 2006, he was with Galen Associates, focusing on growth equity healthcare investments, becoming a General Partner in 1996. Prior to his affiliation with Galen Associates, he was an Associate in Corporate Finance at Smith Barney from 1989 to 1990 and a Senior Project Engineer for General Motors Corporation from 1982 to 1987. Mr. Conjeevaram earned a Bachelor of Science degree in Mechanical Engineering from Madras University, India, a Master of Science degree in Mechanical Engineering from Stanford University, and a Master of Business Administration from Indiana University.

We believe that Mr. Conjeevaram's qualifications to serve on our Board of Directors include his many years of experience with financing and growth planning for healthcare companies.

**Stephen T. Wills, CPA, MST** has served as lead director and a director of Derma Sciences since July 2008 and May 2000, respectively. He also served as our Chief Financial Officer from July 1997 and Vice President from November 1997 until his resignation from these positions in July 2000. Mr. Wills currently serves as Executive Vice President, Chief Financial Officer and Chief Operating Officer of Palatin Technologies, Inc., a publicly traded biopharmaceutical company. Mr. Wills is a member of the American Institute of Certified Public Accountants, New Jersey Society of Certified Public Accountants and Pennsylvania Institute of Certified Public Accountants. He earned a Bachelor of Science degree in Accounting from West Chester University, West Chester, Pennsylvania in 1979 and a Master of Science in Taxation from Temple University, Philadelphia, Pennsylvania in 1994.

We believe that Mr. Wills' qualifications to serve on our Board of Directors include his extensive and varied financial, operational and management experience, his substantial experience with our Company and his strong technological background within the biopharmaceutical industry.

**Robert G. Moussa** has served as a director of Derma Sciences since May 2005. Mr. Moussa is the Chairman, President and Chief Executive Officer of Dilon Technologies, Inc., makers of a gamma imaging system for early breast cancer detection, a position he has held since February 2008. Before joining Dilon Technologies, Inc., Mr. Moussa served as President and Chief Executive Officer of Robert Moussa & Associates, a consulting firm serving the pharmaceutical, biotechnology and healthcare industries. Prior to founding this firm, he served in a variety of executive positions with Mallinckrodt, Inc., St. Louis, Missouri, a \$2.4 billion healthcare and chemical company. Mr. Moussa's most recent assignment at Mallinckrodt, Inc. was President International, a position he held from 1995 through 1997. Previously, he served from 1992 to 1996 as President and Chief Executive Officer of Mallinckrodt Medical, Inc., Mallinckrodt, Inc.'s largest business unit with over \$1 billion in revenues. Before joining Mallinckrodt

Medical, Inc., Mr. Moussa served during the period 1978 through 1992 as Mallinckrodt, Inc.'s Group Vice President International Medical Products, Vice President and General Manager Medical Products Europe, General Manager Critical Care, Director of Business Operations and General Sales Manager. Prior to joining Mallinckrodt, Inc., Mr. Moussa held a number of positions during the period from 1969 through 1976 with Sherwood Medical,

United Kingdom, most recently as Director of Marketing. Mr. Moussa received his Baccalaureate from the Collège du Sacre-Cœur, Beirut, Lebanon, in 1966 and his Bachelor of Science in Business Administration from Ealing University, London, England, in 1969. He has also completed executive seminars at the University of California at Berkeley, the Aspen Institute, the Wharton Executive School and the Center for Creative Leadership.

We believe that Mr. Moussa's qualifications to serve on our Board of Directors include his many years of experience as senior and chief executive with leading companies in the pharmaceutical and healthcare industries.

**Bruce F. Wesson** has served as vice lead director and a director of Derma Sciences since July 2008 and May 2006, respectively. He is Founding Partner Emeritus and Senior Advisor at Galen Management, a health care venture capital firm. Prior to founding Galen Partners, L.P., Mr. Wesson served for over twenty three years with the Corporate Finance Division of Smith Barney, Harris Upham & Co. Inc., most recently as Senior Vice President and Managing Director. While at Smith Barney, Mr. Wesson headed the Major Account Group which was responsible for many of the firm's largest accounts. He also chaired Smith Barney's Valuation and Opinion Committee in which capacity he maintained responsibility for the firm's valuations and fairness opinions. Mr. Wesson currently serves as a director and is a member of the Compensation Committee and the Audit Committee of Acura Pharmaceuticals, Inc., a specialty pharmaceutical company. He also serves as Vice Chairman, director and Chairman of the Audit Committee of MedAssets, Inc., a provider of technology-enabled products and services to the healthcare industry, and serves as a director of several private companies. Mr. Wesson earned a Bachelor of Arts degree from Colgate University, Hamilton, New York, in 1964 and a Master of Business Administration degree from Columbia University, New York, New York, in 1967.

We believe that Mr. Wesson's qualifications to serve on our Board of Directors include his expertise and years of experience with financing and growth planning for healthcare companies.

**Brett D. Hewlett** has served as a director of Derma Sciences since February 2010. Mr. Hewlett has served since 2005 as the Chief Executive Officer of Comvita. Prior to his affiliation with Comvita, Mr. Hewlett served for fifteen years with Tetra Pak, a world-leading food packaging company, in the capacities of Managing Director for Eastern Mediterranean markets and Commercial Director for Saudi Arabia. He has organized and managed his own consulting company and has been an active angel investor supporting start-up companies in New Zealand. Mr. Hewlett earned a Bachelor of Food Technology degree from Massey University, New Zealand, in 1987 and a Masters of Business Administration degree from International Institute for Management Development, Switzerland, in 1993.

We believe that Mr. Hewlett's qualifications to serve on our Board of Directors include his extensive wound care expertise, his many years of global management experience and his strong technological background in the natural healthcare industry.

Comvita is a stockholder of Derma Sciences and we conduct significant business with Comvita. We are also a shareholder of Comvita. In 2013 and 2014, we purchased 2,802,277 common shares in the capital of Comvita for \$8,483,693. At December 31, 2014 this investment represented 7.1% of Comvita's outstanding common shares. For further details of our dealings with Comvita, please refer to the discussion under the heading *Certain Relationships and Related Transactions*. Mr. Hewlett was initially appointed to the Board of Directors, pursuant to that certain nominating agreement dated February 18, 2010 between our Company and Comvita Limited, an affiliate of Comvita. For further details concerning the nominating agreement, please refer to our Current Report on Form 8-K filed with the Securities and Exchange Commission (the "SEC") on February 24, 2010.

**Amy Paul** has served as a director of Derma Sciences since May 2013. Ms. Paul retired in 2008 following a 26-year career with C.R. Bard, Inc., a medical device company, most recently serving as the Group Vice President-International since 2003. She served in various positions at C.R. Bard, Inc. from 1982 to 2003, including

President of Bard Access Systems, Inc., President of Bard Endoscopic Technologies, Vice President and Business Manager of Bard Ventures, Vice President of Marketing of Bard Cardiopulmonary Division, Marketing Manager for Davol Inc., and Senior Product Manager for Davol Inc. Ms. Paul was a

director of Viking Systems, Inc., a publicly traded company, until October 2012 when it was acquired by Conmed Corporation, was a commissioner of the Northwest Commission on Colleges and Universities from 2010 through 2013, and was a Director of Theraclion from 2010 through 2012, a privately held company in Paris, France. Ms. Paul currently serves on the President's Innovation Network at Westminster College and is a director of Wright Medical Technologies, a publicly traded company, for which she chairs the Nominating, Governance and Compliance Committee. Ms. Paul earned a Bachelor of Arts degree in English from Boston University in 1973 and an MBA from Boston University in 1978.

We believe that Ms. Paul's qualifications to serve on our Board of Directors include over three decades of experience in the medical device industry, having served in executive roles in marketing and sales functions, and her significant public and private company board experience.

**Samuel E. Navarro** was nominated for a position on our Board of Directors in March 2015. Mr. Navarro is currently Managing Partner at Gravitax Healthcare, LLC, a strategic advisory firm based in Greenwich, CT. Mr. Navarro was previously Managing Director of Cowen & Co., an investment banking and financial advisory firm, in New York City and head of its Medical Technology Investment Banking initiatives. Before Cowen & Co., Mr. Navarro spent more than four years at The Galleon Group, a hedge fund management firm, running the Galleon Healthcare Fund as a Senior Portfolio Manager. He was responsible for health care investments across all sectors, including pharmaceuticals/biopharmaceutical industries, medical technology and hospital supplies, and all areas of healthcare services. Mr. Navarro also spent time at ING Barings as the Global Head of Healthcare Investment Banking. Mr. Navarro currently serves on the boards of directors of Cardica, Inc. and MELA Sciences, Inc. Mr. Navarro earned a Bachelor of Science degree in Engineering from The University of Texas at Austin, a Master of Science degree in Engineering from Stanford University and an MBA degree in Finance from The Wharton School at the University of Pennsylvania.

We believe that Mr. Navarro's qualifications to serve on our Board of Directors include his extensive investment management experience in the medical device industry.

## Compensation of Directors

### Compensation Program

Upon election or appointment, outside directors receive 10,000 restricted stock units, which vest as to 25% of the grant on the first, second, third and fourth anniversaries of the grant date, so long as the grantee remains a director of the Company. For each year of service after election or appointment, outside directors, except for the lead director, receive a grant of restricted stock units having a value equal to an amount in the range of \$65,000 – \$75,000, which vest on the first anniversary of the grant date, so long as the grantee remains a director of the Company. For each year of service after election or appointment, the lead director receives a grant of restricted stock units having a value equal to an amount in the range of \$100,000 – \$120,000, which vest on the first anniversary of the grant date, so long as the grantee remains a director of the Company. For each year of service, each outside director also receives a \$40,000 annual cash payment, payable quarterly in equal amounts, except for the lead director, who receives an \$85,000 annual cash payment, payable quarterly in equal amounts. In addition, the chairperson of the Audit Committee, the chairperson of the Compensation Committee and the chairperson of the Nominating and Corporate Governance Committee receive additional annual compensation of \$12,000, \$12,000 and \$7,500, respectively, payable quarterly in equal amounts, and each member of the Audit Committee, the Compensation Committee and the Nominating and Corporate Governance Committee receive additional annual compensation of \$4,000, \$4,000 and \$2,500, respectively, payable quarterly in equal amounts. In connection with special committees that the Board of Directors may form from time to time in connection with various transactions or undertakings, the Board of Directors may award compensation

to the directors, in its discretion, for membership on such special committees. The Board of Directors may, from time to time, grant additional merit-based cash or equity compensation to non-employee directors for extraordinary service.

All directors are reimbursed for expenses incurred in connection with each Board and committee meeting attended.

Inside directors receive no compensation for their services as directors.

## Director Compensation Table

The following table sets forth information regarding all forms of compensation that were both earned by and paid to our directors during the year ended December 31, 2014:

Name	Fees Earned or Paid in Cash	Stock Awards <sup>(1)</sup>	Option Awards <sup>(1)</sup>	Total
Edward J. Quilty				
Stephen T. Wills, CPA, MST <sup>(2)</sup>	\$ 116,833	\$ 117,780	\$ 57,600	\$ 292,213
Srini Conjeevaram <sup>(3)</sup>	\$ 44,417	\$ 70,215		\$ 114,632
C. Richard Stafford, Esq. <sup>(4)</sup>	\$ 44,417	\$ 70,215		\$ 114,632
Robert G. Moussa <sup>(5)</sup>	\$ 52,417	\$ 70,215		\$ 122,632
Bruce F. Wesson <sup>(6)</sup>	\$ 48,792	\$ 70,215		\$ 119,007
Brett D. Hewlett <sup>(7)</sup>	\$ 39,583	\$ 70,215		\$ 109,798
Amy Paul <sup>(8)</sup>	\$ 41,917	\$ 70,215		\$ 112,132
Paul Gilbert <sup>(9)</sup>	\$ 10,375			\$ 10,375

This column indicates the aggregate grant date fair value, as determined in accordance with Financial Accounting Standards Board Accounting Standards Codification Topic 718, Compensation – Stock Compensation (FASB ASC (1) Topic 718), of stock option and restricted share unit awards. See Note 10 of the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the year ended December 31, 2014 for an explanation of the assumptions made in valuing these awards.

Mr. Wills' fees include a one-time cash bonus of \$20,000 and a 7,500 time-based stock option award that vests in four equal increments on February 14, 2014, 2015, 2016 and 2017 for his extraordinary efforts related to the (2) Company's equity raise transaction. He was also granted 13,000 restricted share units in 2014 that will vest in 2015. At December 31, 2014, Mr. Wills had 58,875 vested and 5,625 unvested outstanding option awards and 25,500 unvested restricted share unit awards.

Mr. Conjeevaram was granted 7,750 restricted share units in 2014 that will vest in 2015. At December 31, 2014, (3) Mr. Conjeevaram had 41,000 vested outstanding option awards and 15,250 unvested restricted share unit awards.

Mr. Stafford was granted 7,750 restricted share units in 2014 that will vest in 2015. At December 31, 2014, Mr. (4) Stafford had 32,250 vested outstanding option awards and 15,250 unvested restricted share unit awards.

Mr. Moussa was granted 7,750 restricted share units in 2014 that will vest in 2015. At December 31, 2014, Mr. (5) Moussa had 43,500 vested outstanding option awards and 15,250 unvested restricted share unit awards.

Mr. Wesson was granted 7,750 restricted share units in 2014 that will vest in 2015. At December 31, 2014, Mr. (6) Wesson had 34,750 vested outstanding option awards and 15,250 unvested restricted share unit awards.

Mr. Hewlett was granted 7,750 restricted share units in 2014 that will vest in 2015. At December 31, 2014, Mr. (7) Hewlett had 31,000 vested outstanding option awards and 15,250 unvested restricted share unit awards.

Ms. Paul was granted 7,750 restricted share units in 2014 that will vest in 2015. At December 31, 2014, Ms. Paul (8) had 3,750 vested outstanding option awards and 15,250 unvested restricted share unit awards.

Mr. Gilbert resigned as a director, effective March 21, 2014. At December 31, 2014, Mr. Gilbert had (9) 15,000 vested outstanding option awards.

# **BOARD OF DIRECTOR AND CORPORATE GOVERNANCE STANDARDS AND POLICIES**

## **General**

The Board of Directors is the ultimate decision-making body of the Company, except with respect to those matters to be decided by the stockholders. It selects the Chief Executive Officer and other members of the senior management team, which is charged with the conduct of the Company's day to day business. The Board acts as an advisor and counselor to senior management and ultimately monitors its performance. The function of the Board to monitor the performance of senior management is facilitated by the presence of non-employee directors of stature who have substantive knowledge of the Company's business.

## **Conduct of Board Meetings**

The Chief Executive Officer, with approval from the Lead Director, sets the agenda for Board meetings with the understanding that the Board is responsible for providing suggestions for agenda items that are aligned with the advisory and monitoring functions of the Board. Agenda items that fall within the scope of responsibilities of a Board Committee are reviewed with the chair of that Committee. Any member of the Board may request that an item be included on the agenda. Board materials related to agenda items are provided to Board members sufficiently in advance of Board meetings to allow the directors to prepare for discussion of the items at the meeting. At the invitation of the Board, members of senior management recommended by the Chief Executive Officer attend Board meetings or portions thereof for the purpose of participating in discussions. Generally, presentations of matters to be considered by the Board are made by the manager responsible for that area of the Company's operations.

## **Meeting Attendance**

While we strongly encourage attendance by our Board of Directors at our annual stockholders' meetings, we do not have a formal policy with respect to attendance. All eight directors attended last year's annual stockholders' meeting. In fiscal year 2014, there were a total of four meetings of the Board of Directors and the various committees of the Board of Directors met a total of 10 times. No director attended fewer than 75% of the total number of meetings of the Board of Directors and of committees of the Board of Directors on which he or she served during fiscal year 2014.

## **Qualifications of Directors**

The Nominating and Corporate Governance Committee has not established specific criteria or minimum qualifications that must be met by committee-nominated or stockholder-nominated nominees for director. Regardless of the source of a given nominee's nomination, the Nominating and Corporate Governance Committee believes each nominee should be evaluated based solely upon his/her educational attainments, relevant experience and professional stature.

We seek board candidates with a broad diversity of experience, professions, skills, geographic representation, backgrounds and commitment necessary to make a significant contribution to our Company. The Nominating and Corporate Governance Committee does not assign specific weights to particular criteria and no particular criterion is necessarily applicable to all prospective nominees. Experience in the healthcare industry, while not a prerequisite for nomination, is a positive factor in the selection process.



Our Board believes that the backgrounds and qualifications of the directors, considered as a group, should provide a significant composite mix of experience, knowledge and abilities that will allow the Board of Directors to fulfill its responsibilities. Nominees are not discriminated against on the basis of race, religion, national origin, sexual orientation, disability or any other basis proscribed by law. The Nominating and Corporate Governance Committee has not set either term limits or a mandatory retirement age for members of the Board, believing that the Company's interests are best served by members of the Board with substantial experience and knowledge of the Company's business and that age is generally not a barrier to effective performance as a member of the Board.

In connection with the selection of nominees for director, consideration will be given to the Board's overall balance of diversity of perspectives, backgrounds and experiences; however, the Board has not adopted a formal diversity policy.

The Nominating and Corporate Governance Committee will evaluate potential nominees, including stockholder nominees, by reviewing qualifications, considering references, conducting

interviews and reviewing such other information as committee members may deem relevant. The Nominating and Corporate Governance Committee primarily seeks nominations for director from institutional security holders, members of the investment banking community and current directors. We have not employed consultants to help us identify or screen prospective directors in the past, but may do so at the discretion of the Nominating and Corporate Governance Committee.

## **Board of Directors Leadership**

The Board of Directors recognizes that one of its key responsibilities is to evaluate and determine its optimal leadership structure so as to provide independent oversight of management. The Board understands that the right Board of Directors leadership structure may vary as circumstances warrant. Consistent with this understanding, it is the Company's policy that non-employee directors consider the Board of Directors' leadership structure on an annual basis.

The Board has determined that the optimal Board of Directors leadership structure for us is served by the role of Chairman of the Board being held by our Chief Executive Officer, Edward J. Quilty. Mr. Quilty possesses detailed and in-depth knowledge of the issues, opportunities and challenges we face, and is thus best positioned to develop agendas that ensure that the Board's time and attention are focused on the most critical matters.

Our non-employee directors have also determined that it is optimal for the Board to have an independent lead director, whose responsibilities include, among others, (i) serving as primary intermediary between non-employee directors and management; (ii) formulating, in consultation with the Chairman of the Board, the agenda and meeting schedules for the Board; (iii) advising the Chairman of the Board as to the quality, quantity and timeliness of the information submitted by management to directors; (iv) recommending to the Chairman of the Board the retention of advisors and consultants who report directly to the Board; (v) calling meetings of non-employee directors; (vi) serving as liaison for consultation and communication with stockholders; and (vii) serving as Chairman of the Executive Committee of the Board if, and when, the same shall be established. Our lead director is Stephen T. Wills.

The Board of Directors has determined that this leadership structure is optimal for us because it believes that having one leader serving as both the Chairman and Chief Executive Officer provides decisive, consistent and effective leadership, as well as clear accountability. This also enhances our ability to communicate our message and strategy clearly and consistently to our stockholders, employees, customers and suppliers, particularly during times of turbulent economic and industry conditions.

Although we believe that the combination of the Chairman and Chief Executive Officer roles is appropriate in the current circumstances, we will continue to review this issue periodically to determine whether, based on the relevant facts and circumstances, separation of these offices would serve our best interests and the best interests of our stockholders.

## **Role of the Board of Directors in Risk Oversight**

Our executive officers are responsible for the day-to-day management of risks the Company faces, while our Board of Directors has responsibility, as a whole and also at the committee level, for the oversight of the Company's risk management. The Board of Directors regularly reviews the Company's long-term business strategy, including industry trends and their potential impact on the Company, our competitive positioning, potential acquisitions and divestitures, as well as the Company's technology and market direction. The Board of Directors also reviews information regarding the Company's actual and planned financial position and operational performance, as well as the risks associated with each. The Company's Compensation Committee is responsible for overseeing the management of risks relating to the

Company's executive compensation and the Company's incentive, equity award and other benefit plans. The Audit Committee oversees management of financial risks, including but not limited to accounting matters, tax positions, insurance coverage and security of the Company's cash reserves. The Nominating and Corporate Governance Committee manages risks associated with the independence and remuneration of the Board of Directors and potential conflicts of interest. While each committee is responsible for evaluating certain risks and overseeing the management of such risks, the entire Board of Directors is regularly informed about such risks by committee reports as well as advice and counsel from expert advisors.

## Director Independence

It is the policy of the Company that the Board consist of a majority of independent Directors. The Nominating and Corporate Governance Committee of the Board has established Director Qualification Standards to assist it in determining Director independence, which either meet or exceed the independence requirements of NASDAQ Marketplace Rule 5605(a)(2). The Board will consider all relevant facts and circumstances in making an independence determination, and not merely from the standpoint of the Director, but also from that of persons or organizations with which the Director has an affiliation. The Board has reviewed the materiality of any relationship that each of our directors has with the Company. Based upon this review, the Board has determined that all director nominees, with the exception of Edward J. Quilty and Brett Hewlett, are independent as defined in NASDAQ Marketplace Rule 5605(a)(2). The term of office of each person elected as director will continue until our next annual meeting of stockholders or until his successor has been duly elected and qualified.

## Board of Director Committees

It is the general policy of the Company that all major decisions be considered by the Board as a whole. As a consequence, the Committee structure of the Board is limited to those Committees considered to be basic to, or required or appropriate for, the operation of the Company. Currently, these Committees are the Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee. The members and chairs of these Committees are recommended to the Board by the Nominating and Corporate Governance Committee. The Audit Committee, Compensation Committee and Nominating and Corporate Governance Committee are made up of only independent Directors.

### Audit Committee

We maintain an Audit Committee that is currently composed of Stephen T. Wills, CPA, MST, Chairman, Srinivas Conjeevaram, C. Richard Stafford, Esq. and Bruce F. Wesson. Messrs. Wills, Conjeevaram, Stafford and Wesson are considered to be independent as defined in NASDAQ Marketplace Rule 5605(a)(2). The Audit Committee reviews the results and scope of the audit and the financial recommendations provided by our independent registered public accounting firm. The Audit Committee operates under a written charter, a copy of which may be viewed on the Company's website at <http://www.dermasciences.com> under the heading Corporate Governance in the Investor Relations section. The Audit Committee held five meetings in 2014. Details relative to the Audit Committee's financial expert, together with the Audit Committee Report, are set forth on page 36 of this Proxy Statement under the heading *Additional Information*.

### Compensation Committee

We maintain a Compensation Committee that is currently composed of Robert G. Moussa, Chairman, Srinivas Conjeevaram, Stephen T. Wills, CPA, MST and Amy Paul. Messrs. Moussa, Conjeevaram and Wills and Ms. Paul are considered to be independent as defined in NASDAQ Marketplace Rule 5605(a)(2). The Compensation Committee reviews the compensation of management and recommends to the Board the amounts and types of cash and equity incentives to be offered to management. The Compensation Committee operates under a written charter, a copy of which may be viewed on the Company's website at <http://www.dermasciences.com> under the heading Corporate Governance in the Investor Relations section. The Compensation Committee held three meetings in 2014. The Compensation Committee Report is set forth in the Compensation Discussion and Analysis beginning on page 16 of this Proxy Statement.

## **Nominating and Corporate Governance Committee**

We maintain a Nominating and Corporate Governance Committee that is currently composed of Bruce F. Wesson, Chairman, Robert G. Moussa, C. Richard Stafford, Esq. and Amy Paul. Messrs. Wesson, Moussa and Stafford and Ms. Paul are considered to be independent as defined in NASDAQ Marketplace Rule 5605(a)(2). The Nominating and Corporate Governance Committee reviews the qualifications of prospective directors for consideration by the Board as management's nominees for directors. The Nominating and Corporate Governance Committee operates under a written charter, a copy of which may be viewed on the Company's website at <http://www.dermasciences.com> under the heading Corporate Governance in the Investor Relations section. The Nominating and Corporate Governance Committee held two meetings in 2014.

We will consider nominations for directors submitted by stockholders. Stockholder nominations for election to the Board must be made by written notification received by the chairperson of the Board not later than sixty days prior to the anniversary date of the preceding annual meeting of stockholders. Such notification shall contain, at a minimum, the following information:

1. The name and residential address of the proposed nominee and of each notifying stockholder;
  2. The principal occupation of the proposed nominee;
  3. A representation that the notifying stockholder intends to appear in person or by proxy at the meeting to nominate the person specified in the notice;
  4. The total number of our shares that will be voted for the proposed nominee;
  5. The total number of our shares owned by the notifying stockholder;
  6. A description of all arrangements or understandings between the notifying stockholder and the proposed nominee and any other person or persons pursuant to which the nomination is to be made by the notifying stockholder;
  7. Any other information regarding the nominee that would be required to be included in a proxy statement filed with the SEC; and
  8. The consent of the nominee to serve as one of our directors, if elected.
- The Nominating and Corporate Governance Committee will return, without consideration, any notice of proposed nomination which does not contain the foregoing information.

The director nominees for the Meeting were recommended by the Nominating and Corporate Governance Committee and unanimously approved by the Board.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE ELECTION AS DIRECTORS OF THE NOMINEES LISTED ABOVE.**

## PROPOSAL 2 ADVISORY VOTE ON THE COMPENSATION OF OUR NAMED EXECUTIVE OFFICERS

As required by the Dodd-Frank Wall Street Reform and Consumer Protection Act, we included a stockholder vote on the frequency of future votes on named executive officer compensation in our 2013 proxy statement which was advisory and nonbinding. Our stockholders approved the frequency of future votes on the recommendation of our Board of Directors to hold future say-on-pay votes on an annual basis. The next stockholder vote on the frequency of future votes on named executive officer compensation will occur at our 2019 annual meeting of stockholders.

As a result, our stockholders are entitled to vote at the Annual Meeting to approve the compensation of our named executive officers (referred to herein as the NEOs) listed in the Summary Compensation Table in the Compensation Discussion and Analysis section of this Proxy Statement (commonly referred to as a say on pay vote). Pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, the stockholder vote on executive compensation is an advisory vote only, and it is not binding on the Company or the Board of Directors.

Our executive compensation programs are based on three core principles that are designed to motivate our NEOs to achieve annual financial and strategic objectives to enhance the profitability of the Company and create long-term stockholder value. The fiscal year 2014 compensation of our NEOs reflected these core principles:

A significant portion of each NEO's cash compensation was based on the annual financial performance of the Company and was therefore at risk;

A significant portion of each NEO's total compensation was provided in the form of long-term equity, a significant portion of which was subject to stock price performance, to further align the interest of our NEOs and stockholders; and

The target total direct compensation package for each NEO was consistent with market practices for executive talent and each NEO's individual experience, responsibilities and performance.

We believe that our compensation programs and policies for the fiscal year ended December 31, 2014 were consistent with our core compensation principles, an effective incentive for the achievement of positive results, aligned with stockholders' interests, supported by strong compensation governance practices and worthy of continued stockholder support. Accordingly, we ask for our stockholders to indicate their support for the compensation paid to our NEOs by voting FOR the following non-binding resolution at the Meeting:

RESOLVED, that the Company's stockholders approve the compensation of the named executive officers for fiscal year 2014 listed in the Summary Compensation Table in the Compensation Discussion and Analysis section of the proxy statement, as disclosed pursuant to Item 402 of Regulation S-K.

Approval of this proposal requires that votes cast in favor of the proposal exceed the votes cast against the proposal. Abstentions and Broker Non-Votes will not be counted as having been voted for purposes of this proposal. Because your vote is advisory, the result will not be binding upon the Company. Although not binding, our Compensation Committee and the Board value the opinions of our stockholders and will consider the outcome of the vote, along with other relevant factors, when making future compensation decisions for NEOs.

**THE BOARD RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE APPROVAL OF THE  
COMPENSATION OF THE NEOs, AS STATED IN THE ABOVE NON-BINDING RESOLUTION.**





## **PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

The Audit Committee has appointed KPMG LLP ( KPMG ), an independent registered public accounting firm, to perform an integrated audit of our financial statements for the fiscal year ending December 31, 2015 and internal controls over financial reporting as of December 31, 2015. The Board proposes that the stockholders ratify this appointment. We expect that representatives of KPMG will be present at the Meeting, will be able to make a statement if they so desire, and will be available to respond to appropriate questions.

### **Independent Registered Public Accounting Firm Fees**

Fees for professional services provided by the Company's independent registered public accounting firm for the years ended December 31, 2014 and 2013 are as follows:

	2014	2013
Audit fees	\$ 644,500	\$ 650,000
Audit related fees	\$ 228,405	\$ 24,210
Tax fees	\$ 166,626	\$ 283,085
Other fees		
Totals	\$ 1,039,531	\$ 957,295

All of the foregoing fees were, in each case, pre-approved by the Company's Audit Committee.

### **Fee Analysis and Pre-Approval Policy**

#### **Audit Fees**

Audit fees consist of fees relative to the audit of the Company's year-end financial statements and review of the Company's quarterly reports on Form 10-Q, and the auditor's opinion related to internal control over financial reporting required by Section 404 of the Sarbanes-Oxley Act of 2002.

#### **Audit Related Fees**

Audit related fees principally involve services relative to securities registration statements and related comfort letter procedures.

#### **Tax Fees**

Tax fees principally involve services relative to assisting the Company in compliance with its tax filing requirements and tax consulting services.

## **Audit Committee Pre-Approval Policy**

It is the policy of the Company's Audit Committee to approve all engagements of the Company's independent registered public accounting firm to render audit or non-audit services prior to the initiation of such services. Our procedures for the pre-approval by the Audit Committee of all services provided by the Company's independent registered public accounting firm comply with SEC regulations regarding pre-approval of services. Services subject to these SEC requirements include audit services, audit-related services, tax services and other services. The audit engagement is specifically approved and the auditors are retained by the Audit Committee.

**THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT STOCKHOLDERS VOTE FOR THE RATIFICATION OF THE SELECTION OF KPMG LLP AS THE COMPANY'S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR THE YEAR ENDING DECEMBER 31, 2015.**

## EXECUTIVE OFFICERS

The executive officers of the Company are:

Name	Age	Position with the Company	Executive Officer of the Company Since
Edward J. Quilty	64	Chairman of the Board, President and Chief Executive Officer	November, 1998
John E. Yetter, CPA	62	Executive Vice President, Finance and Chief Financial Officer	August, 2000
Robert C. Cole	62	Group President, Traditional Wound Care and Corporate Accounts	January, 2003
Frederic Eigner	65	Executive Vice President of Operations and General Manager, Derma Sciences Canada Inc.	March, 2005
Barry J. Wolfenson	48	Group President, Advanced Wound Care	March, 2006
John Caminis, M.D.	55	Chief Medical Officer	March, 2015

**John E. Yetter, CPA** has served as our Executive Vice President, Finance and Chief Financial Officer since January 2013, and previously, as our Vice President and Chief Financial Officer beginning in August 2000. Prior to joining us, Mr. Yetter held a variety of senior financial positions with Bristol-Myers Squibb Company. Before his association with Bristol-Myers Squibb, he held several supervisory financial positions with Cooper Industries, Inc., Price Waterhouse and Hulse Manufacturing Company. Mr. Yetter is a member of the American Institute of Certified Public Accountants and the New York Society of Certified Public Accountants. He earned a Bachelor of Science in Accounting, *magna cum laude*, from Boston College School of Management, Boston, Massachusetts in 1975.

**Robert C. Cole** has served as our Group President, Traditional Wound Care and Corporate Accounts since January 2013, and previously as our Executive Vice President for Sales beginning in May 2006. Prior to his position as Executive Vice President for Sales, he served as our Vice President – Sales and Marketing from January 2003 through April 2006. Prior to joining us, Mr. Cole held a variety of executive sales positions with B. Braun Medical and predecessor firms beginning in 1974, most recently as Vice President, Sales, Eastern Zone. Mr. Cole earned his Bachelor of Science degree in Biology, *cum laude*, from St. Vincent's College, Latrobe, Pennsylvania, in 1974.

**Frederic Eigner** has served as our Executive Vice President, Operations and General Manager of our Canadian subsidiary, Derma Sciences Canada Inc., since March 2005. Previously, beginning in August 2002, he served as Vice President for Operations of Derma Sciences Canada Inc. Prior to its acquisition by us, he held several positions with Dumex Medical Inc. during the period 1992 until August 2002, most recently as Executive Vice President. Prior to his association with Dumex Medical Inc., Mr. Eigner held a variety of executive manufacturing positions with The Kendall Company during the period from 1980 through 1992, most recently as Director of Manufacturing. He earned a Bachelor of Science degree in Industrial Engineering from the High Technical School of Kranj, Slovenia, in 1975, a Master of Science degree in Chemical Engineering from the University of Maribor, Slovenia, in 1980, and a Master of Business Administration degree from the University of Toronto, Ontario, Canada, in 2000.

**Barry J. Wolfenson** has served as our Group President, Advanced Wound Care and Pharmaceutical Development since January 2013. Effective March 9, 2015, Mr. Wolfenson's title was changed to Group President, Advanced Wound Care. Mr. Wolfenson previously served as our Executive Vice President, Global Business Development and Marketing from March 2010 through December 2012; our Vice President for Marketing and Business Development

from March 2006 through February 2010; and our Director of Marketing from February 2004 through February 2006.

Prior to joining us, Mr. Wolfenson held a variety of sales and marketing positions with Bristol-Myers Squibb beginning in 2001, most recently as Marketing Manager with the Bristol-Myers Squibb ConvaTec division. Before his association with Bristol-Myers Squibb, he operated a successful entrepreneurial venture and served as an account executive with Andersen Consulting. Mr. Wolfenson earned a Bachelor of Science degree in Economics from Franklin and Marshall College, Lancaster, Pennsylvania, in 1989 and a Master of Business Administration degree, *cum laude* (Beta Gamma Sigma) from the University of Michigan, Ann Arbor, Michigan, in 2001.

**John Caminis, M.D.** has served as our Chief Medical Officer since March 9, 2015. Prior to joining us, Dr. Caminis served as senior medical director in the immunology, and later in the bone patient value unit, at UCB Biosciences Inc., a global biopharmaceutical company. Prior to UCB he was vice president, clinical development at Warner Chilcott, LLC (now Actavis plc), where he supported the integration of clinical development functions subsequent to that company's acquisition of Proctor & Gamble Co.'s pharmaceuticals business. At Warner Chilcott he planned, designed, developed and oversaw clinical development programs in therapeutic areas such as bone metabolism, urology, dermatology and infectious disease. Earlier in his career, Dr. Caminis had roles of increasing responsibility in clinical development and medical affairs programs at small as well as large companies like NPS Pharmaceuticals, Inc., Novartis Pharmaceuticals Corporation and Roche Laboratories, Inc. While at NPS, he had a pivotal role in the execution and development of key assets for patients with rare diseases. Dr. Caminis earned a Bachelor of Science degree in Biological Sciences from Concordia University in Montreal, Quebec, a Doctor of Medicine degree from the University of Athens School of Medicine in Athens, Greece and a Masters Certification in Project Management from the George Washington University School of Business/ESI International.

Executive officers are appointed by, and serve at the discretion of, the Board of Directors.

# COMPENSATION DISCUSSION AND ANALYSIS

The following discussion relates to compensation arrangements on behalf of, and compensation paid by our Company to, each of our named executive officers who include:

Name	Position
Edward J. Quilty	Chief Executive Officer
John E. Yetter	Executive Vice President, Finance and Chief Financial Officer
Robert C. Cole	Group President, Traditional Wound Care and Corporate Accounts
Frederic Eigner	Executive Vice President, Operations and General Manager of Derma Sciences Canada Inc.
Barry J. Wolfenson <sup>(1)</sup>	Group President, Advanced Wound Care and Pharmaceutical Development

(1) Effective March 9, 2015, Mr. Wolfenson's title was changed to Group President, Advanced Wound Care.

## Section 1: Executive Summary

### Compensation Objectives

The objectives of our compensation programs are as follows:

Objective	Description
Pay-For-Performance	Our compensation program emphasizes performance-based compensation in order to motivate our executives to achieve strong financial, operational and individual performance in line with the Company's corporate strategies, business objectives and the long-term interests of the Company's stockholders. In order to attract and retain qualified executive leadership, the Company must offer compensation which is comparable to similarly situated companies and which provides the potential for substantial rewards if the Company is successful over the long-term. The Company seeks to pay base salary, annual bonus and long-term incentive compensation at levels competitive with other medical device companies.
Talent Retention	Our compensation program aligns our executives' interests with those of our stockholders by making stock-based incentives a core element of our executives' compensation.
Alignment with Stockholder Interests	

### Pay-For-Performance

We are committed to a pay-for-performance philosophy. As described below, the variable components of our compensation program are short-term incentives ( STI ) and long-term incentives ( LTI ). Our STI opportunities are provided under an annual cash bonus plan, the payout of which is dependent on the achievement of certain financial, operational or technological objectives. Our LTI opportunities are provided through performance and time-based stock options and performance-based restricted share unit ( RSU ) awards.

As a result of our pay-for-performance commitment, a meaningful portion of our named executive officers' total direct compensation, which consists of base salary and target STI and LTI opportunities, is variable. For 2014, approximately 74% of the total direct compensation opportunity (assuming target performance) for Mr. Quilty and approximately 81% of the total direct compensation opportunity (assuming target performance) for our other named executive officers was provided in the form of STI and LTI opportunities.

## Compensation Policies and Practices

The Compensation Committee has implemented a number of compensation policies and practices that are intended to further our compensation objectives. The following are some key features of our executive compensation program.

### Our Compensation Policies and Practices

**Claw-Back Policy and Forfeiture of Equity.** We maintain a claw-back policy, under which we will require the reimbursement of any incentive compensation paid to the executive officers of the Company if the payment was predicated upon financial results that were subsequently the subject of a restatement. In addition, if an executive is terminated for cause then he or she shall forfeit all awards granted under the Company's 2012 Equity Incentive Plan.

**No Excise Tax Gross-Ups.** We do not provide excise tax gross-ups for severance benefits received in connection with a change in control of the Company.

**No SERP or Pension Plan.** We do not maintain a supplemental executive retirement plan, pension plan, or any other type of defined benefit retirement plan.

**Retain an Independent Consultant.** The Compensation Committee retains an independent consultant to assist in developing and reviewing our executive compensation strategy and to confirm that the design and pay levels of our compensation programs are consistent with market practices.

**Consideration of Prior Year's Say on Pay Vote.** As in previous years, stockholders continued to show support for our executive compensation program by approving the compensation of our named executive officers by a vote of approximately 84.7% of the shares represented by person or by proxy at the 2014 Annual Meeting. The Compensation Committee views the continued support of such stockholders as an endorsement of our compensation program and our compensation objectives.

### Section 2: Elements of Compensation

The following is an overview of our compensation program which consists of base salary, STI opportunity, and LTI opportunity.

#### Base Salary

The employment agreement with each named executive officer sets an initial base salary in accordance with industry norms and the named executive officer's experience and qualifications. The Compensation Committee annually reviews each executive officer's base salary. Among the factors taken into consideration are: (i) individual and corporate performance, (ii) levels of responsibility, (iii) prior experience, (iv) breadth of knowledge of the industry and (v) competitive pay practices. If salaries at comparable companies have increased, the Compensation Committee normally recommends similar increases. However, increases will be recommended only if the executive's historical performance warrants an increase and if the increase is prudent in view of the Company's financial condition.

Based on the above factors, the base salaries of the named executive officers were increased in 2014 as follows:

Name	2013 Base Salary	2014 Base Salary	% Change
Mr. Quilty	\$ 450,000	\$ 500,000	11 %
Mr. Yetter	\$ 260,000	\$ 270,000	4 %
Mr. Cole	\$ 240,000	\$ 250,000	4 %
Mr. Eigner <sup>(1)</sup>	\$ 252,427	\$ 244,388	4 %



Mr. Wolfenson	\$ 280,000	\$ 300,000	7	%
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(1) Presented in USD. Mr. Eigner's base salary is paid in Canadian dollars. His base salary was increased from \$260,000 Cdn. to \$270,000 Cdn. The average exchange rates for 2014 and 2013 were 1.10 and 1.03, respectively.

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Effective January 1, 2015, the base salaries for the named executive officers were increased by 3% in order to reflect a cost of living adjustment. This 3% increase represented the same range of base salary increase applicable to all of the Company's employees.

## Short-Term Incentive Compensation

In addition to base salary, the Company seeks to reward executives each year for the achievement of specific goals through short-term incentives.

For 2014, the Compensation Committee did not adjust the target STI opportunity, which is expressed as a percentage of base salary, for the named executive officers because the levels were already competitively positioned. The target levels for the named executive officers are set forth in the table which follows.

Name	Target STI Opportunity
Mr. Quilty	50 %
Mr. Yetter	30 %
Mr. Cole	30 %
Mr. Eigner	30 %
Mr. Wolfenson	35 %

## Performance Goals

For 2014, the performance goals for the STI opportunity for each named executive officer was allocated (i) 75% to financial goals which were tied to the 2014 financial and operational budget and (ii) 25% to strategic and personal goals. The R&D financial goal was primarily based on the DSC127 Phase 3 development program and included both financial spend and patient enrollment target numbers. The financial goals and actual performance results were as follows:

Financial Goals	Weight % Target	Budget (\$ millions)	Actual (\$ millions)	Weight % Achieved
Net Sales	30 %	\$ 93.603	\$ 83.746	15 %
Gross Profit	15 %	\$ 35.243	\$ 30.067	8 %
R&D	10 %	\$ 28.542	\$ 19.283	4 %
EBITDA (Excluding R&D)	20 %	(\$8.203 )	(\$11.591 )	10 %
<b>TOTAL</b>	<b>75 %</b>			<b>37 %</b>

The 2014 strategic and personal goals were as follows:

Name	Strategic and Personal Goals
Mr. Quilty	

**Strategic:** Present and implement strategic 3-year plan; Efficiently execute the Phase 3 clinical trial program for DSC127, including targeted patient enrollment numbers; Evaluate and present multiple comprehensive strategic opportunities to grow the Company's business related to acquisitions or product licensing to the Board for consideration; Complete at least one of these

opportunities, if appropriate; Oversee succession planning initiatives; Lead an effective investor and analyst relationship program.

**Personal:** Exhibit leadership and communication skills.

Mr. Yetter

**Strategic:** Provide business and financial analysis in support of key management operating decisions; Optimize operational cash flow; Implement new business management software in Canada; Complete integration of equity administration and reporting software; Lead international tax planning study.

**Personal:** Exhibit financial, risk management and personnel management skills; Exhibit leadership and communication skills.

Name Strategic and Personal Goals

Mr. Cole **Strategic:** Successfully enhance the Company's position in the retail private label industry; Recruit and hire certain key personnel for sales and distribution in target market; Assist in securing contracts that will support the purchase of equipment for form, fill and seal; Support Amnio family of products and corporate accounts.

**Personal:** Motivate Traditional Wound Care personnel towards higher achievement; Foster cooperation with Advanced Wound Care and corporate accounts personnel.

Mr. Eigner **Strategic:** Implement certain cost reduction initiatives; Oversee manufacturing relocations and improvement of certain manufacturing sites; Implement leasehold improvements at certain manufacturing facilities; Spearhead successful outcome of Regulatory Audit.

**Personal:** Motivate Canadian employees towards higher achievement and ensure manufacturing plant safety; Exhibit leadership and communication skills.

Mr. Wolfenson **Strategic:** Improve international sales and production efficiencies; Efficiently execute the Phase 3 clinical trial program for DSC127, including targeted patient enrollment numbers; Complete outstanding product development agreements and initiate launch of certain products; Achieve annual growth of 30% for Advanced Wound Care product line; Initiate development of zip-line cast system; Launch new corporate identity campaign; Oversee and promote effective partner and alliance management.

**Personal:** Motivate Advanced Wound Care personnel towards higher achievement; Foster cooperation with Traditional Wound Care and corporate accounts personnel; Exhibit leadership and communication skills.

### Payouts

The Compensation Committee determined the payouts under the 2014 STI program, based on aggregate performance. The weighted-average achievement and payout levels for the named executive officers under the 2014 STI program are set forth below.

Name <sup>(1)</sup>	Financial Goals	Strategic and Personal	Weighted Average	Target STI Opportunity	Payout
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	Achievement Level (75%)		Goals Achievement Level (25%)		Achievement Level			
Mr. Quilty	49	%	50	%	49	%	\$ 250,000	\$ 123,000
Mr. Yetter	49	%	80	%	57	%	\$ 81,000	\$ 46,000
Mr. Cole	49	%	88	%	59	%	\$ 75,000	\$ 44,000
Mr. Eigner	49	%	80	%	57	%	\$ 73,316	\$ 41,637 <sup>(2)</sup>
Mr. Wolfenson	49	%	60	%	52	%	\$ 105,000	\$ 54,000

(1) Amounts and percentages are subject to rounding conventions adopted by the Compensation Committee.

(2) Mr. Eigner's STI payout was paid in Canadian dollars. The average exchange rate for 2014 was 1.10. For 2014, an additional cash bonus was awarded to Mr. Quilty of \$30,000 and Mr. Wolfenson of \$20,000 due to their extraordinary efforts in managing a successful equity raise of \$86 million.

## Long-Term Incentive Compensation

The Company's long-term incentives for named executive officers consist of stock options and RSUs awarded pursuant to the Company's 2012 Equity Incentive Plan. The Compensation Committee determines the number and terms of recommended option and RSU grants to the Company's named executive officers based on practices at comparable companies in the medical device industry and the Company's policy of linking long-term incentives to performance.

### 2014 Annual Grants

On February 14, 2014, the Compensation Committee granted performance-based RSUs and time-based and performance-based stock options to the named executive officers. The time-based stock options vest 25% upon the date of grant and 25% annually thereafter. The performance-based stock options and performance-based RSUs are to vest, if at all, to the extent the Company achieves the financial, strategic and personal goals as set forth in the STI program. The number of performance-based RSUs and stock options granted to each named executive officer as part of the 2014 annual grant are set forth below.

Name	Performance-Based	Stock Options	
	RSUs	Performance-Based	Time-Based
Mr. Quilty	12,200	41,000	24,000
Mr. Yetter	4,700	15,000	12,000
Mr. Cole	4,700	15,000	12,000
Mr. Eigner	4,700	15,000	12,000
Mr. Wolfenson	6,200	22,000	16,000

On February 12, 2015, the Compensation Committee determined the vesting under the 2014 LTI program, based on the weighted average achievement level of the financial, strategic and personal goals under the STI program, for the year ended December 31, 2014.

Name <sup>(1)</sup>	Weighted Average Achievement Level		Performance-Based RSUs		Performance-Based Stock Options	
			Granted (2014)	Vested (2015)	Granted (2014)	Vested (2015)
Mr. Quilty	49	%	12,200	6,000	41,000	20,100
Mr. Yetter	57	%	4,700	2,700	15,000	8,500
Mr. Cole	59	%	4,700	2,700	15,000	8,800
Mr. Eigner	57	%	4,700	2,700	15,000	8,500
Mr. Wolfenson	52	%	6,200	3,200	22,000	11,300

(1) Amounts and percentages are subject to rounding conventions adopted by the Compensation Committee.

### 2014 Special Equity Bonus

The Compensation Committee also awarded a special equity bonus of 12,000 stock options to Mr. Quilty and 7,500 stock options to Mr. Wolfenson due to their extraordinary efforts in managing a successful equity raise of \$86 million.

The stock option awards are time-based and will vest 25% upon the date of grant and 25% annually thereafter.

## **Section 3: Determining Compensation**

### **Compensation Committee**

The Compensation Committee is charged with the following responsibilities: (i) recommendations to the Board of Directors relative to the compensation of executive officers, (ii) administration of the equity incentive plan and recommendations to the Board relative to the grant of equity awards to employees, directors and consultants of the Company, (iii) review of, and recommendations to the Board concerning, proposed employment agreements with executive officers, and (iv) evaluation of the performance of, and determination of compensation policies for, executive officers.

The Compensation Committee meets several times per year in order to: (i) review the effectiveness of the Company's executive compensation policy in advancing the Company's objectives, (ii) make recommendations to the Board for any adjustments, and (iii) recommend annual compensation for the coming year.

## **Compensation Consultant**

The Compensation Committee directly retains the Hay Group to assist in developing and reviewing our executive compensation strategy and program. The Hay Group reports directly to the Compensation Committee and does not perform any other services for the Company other than as an adviser to the Board of Directors on its director compensation program. The Compensation Committee has assessed the independence of the Hay Group pursuant to SEC rules and NASDAQ listing standards and concluded that no conflict of interest exists that would prevent the consulting firm from independently advising the Compensation Committee.

## **Peer Group**

For 2014, the companies comprising the Company's compensation peer group remained the same as in 2013 and were as follows:

### 2014 Compensation Peer Group

Allied Healthcare Products Inc.

Anika Therapeutics

Atricure, Inc.

Atrion Corp.

Cumberland Pharmaceuticals

Cutera Inc.

Iridex Corp.

Lannett Co., Inc.

Repligen Corp.

Span-America Medical Systems Inc.

SurModics, Inc.

Synergetics

Utah Medical Products

Vascular Solutions Inc.

In 2015, the Compensation Committee engaged the Hay Group to identify a peer group and for evaluation of the market competitiveness of cash and equity compensation for the Company's executive officers. As a result of this evaluation, a new peer group was identified effective January 1, 2015. These changes include (a) the removal of Allied Healthcare Products Inc., Cumberland Pharmaceuticals and Lannett Company, Inc. and (b) the addition of Endologix Inc., Osiris Therapeutics, Inc. and STAAR Surgical Company.

## **Section 4: Additional Compensation Matters**

### **Employment Arrangements**

The key terms of the employment agreements with each of our named executive officers are set forth below.

#### **Edward J. Quilty**

We employ Edward J. Quilty, our Chairman, President and Chief Executive Officer, pursuant to an employment agreement (as amended effective as of December 20, 2012, March 31, 2013 and March 9, 2015), expiring March 31, 2017, providing for an annual base salary and incentive compensation in the discretion of the Board of Directors. The agreement further provides that, upon the Company's failure to renew the agreement or termination of employment, each without cause (each, a Severance Event), Mr. Quilty is entitled to (i) payment of severance compensation in the



amount of two-years base salary, to be paid in twenty-four equal monthly installments, (ii) at the Company's expense, the same health care benefits provided to the Company's active employees for twenty four months following such Severance Event and (iii) an extension of the period to exercise any options to purchase securities of the Company to the earlier to occur of (a) the expiration thereof, as set forth in the option instrument, or (b) the tenth anniversary of the original grant date of the option instrument (an Option Exercise Extension). Mr. Quilty's receipt of severance benefits and an Option Exercise Extension under his employment agreement is further conditioned upon his release of any claims against our Company. Mr. Quilty's employment agreement also contains a claw back provision pursuant to which the Company will recoup incentive compensation from him in the event of a financial restatement or other serious issue that results in a downward adjustment of the revenues, profits or other financial criteria upon which incentive-based compensation was predicated (a Claw-Back Provision).

## **John E. Yetter, CPA**

We employ John E. Yetter, CPA, our Executive Vice President, Finance and Chief Financial Officer, pursuant to an employment agreement (as amended effective as of December 20, 2012, March 31, 2013 and March 9, 2015), expiring March 31, 2017, providing for an annual base salary and incentive compensation in the discretion of the Board of Directors. The agreement further provides that, upon a Severance Event, Mr. Yetter is entitled to (i) payment of severance compensation in the amount of one-year's base salary, to be paid in twelve equal monthly installments, (ii) at the Company's expense, the same health care benefits provided to the Company's active employees for twelve months following such Severance Event and (iii) an Option Exercise Extension. Mr. Yetter's receipt of severance benefits and an Option Exercise Extension under his employment agreement is further conditioned upon his release of any claims against our Company. Mr. Yetter's employment agreement also contains a Claw-Back Provision.

## **Robert C. Cole**

We employ Robert C. Cole, our Group President, Traditional Wound Care and Corporate Accounts, pursuant to an employment agreement (as amended effective as of December 20, 2012, March 31, 2013, and March 9, 2015), expiring March 31, 2017, providing for an annual base salary and incentive compensation in the discretion of the Board of Directors. The agreement further provides that, upon a Severance Event, Mr. Cole is entitled to (i) payment of severance compensation in the amount of one-year's base salary, to be paid in twelve equal monthly installments, (ii) at the Company's expense, the same health care benefits provided to the Company's active employees for twelve months following such Severance Event and (iii) an Option Exercise Extension. Mr. Cole's receipt of severance benefits and an Option Exercise Extension under his employment agreement is further conditioned upon his release of any claims against our Company. Mr. Cole's employment agreement also contains a Claw-Back Provision.

## **Frederic Eigner**

We employ Frederic Eigner, our Executive Vice President, Operations and General Manager of Derma Sciences Canada Inc., pursuant to an employment agreement (as amended effective as of December 20, 2012, March 31, 2013 and March 9, 2015), expiring March 31, 2017, providing for an annual base salary and incentive compensation in the discretion of the Board of Directors. The agreement further provides that, upon a Severance Event, Mr. Eigner is entitled to (i) payment of severance compensation in the amount of the greater of (a) one-year's base salary, to be paid in twelve equal monthly installments and (b) the amount specified by the laws of Ontario, Canada, to be paid in monthly installments, (ii) at Derma Canada's expense, for twelve months following such Severance Event, the health care benefits required by the laws of Ontario, Canada, and reimbursement for the cost of health care benefits obtained by Mr. Eigner to the extent comparable benefits and cost coverage is provided to Derma Canada's active employees and (iii) an Option Exercise Extension. Mr. Eigner's receipt of severance benefits and an Option Exercise Extension under his employment agreement is further conditioned upon his release of any claims against our Company. Mr. Eigner's employment agreement also contains a Claw-Back Provision.

## **Barry J. Wolfenson**

We employ Barry J. Wolfenson, our Group President, Advanced Wound Care, pursuant to an employment agreement (as amended effective as of December 20, 2012, March 31, 2013 and March 9, 2015), expiring March 31, 2017, providing for an annual base salary and incentive compensation in the discretion of the Board of Directors. The agreement further provides that, upon a Severance Event, Mr. Wolfenson is entitled to (i) payment of severance compensation in the amount of one-year's base salary, to be paid in twelve equal monthly installments, (ii) at the Company's expense, the same health care benefits provided to the Company's active employees for twelve months following such Severance Event and (iii) an Option Exercise Extension. Mr. Wolfenson's receipt of severance benefits

and an Option Exercise Extension under his employment agreement is further conditioned upon his release of any claims against our Company. Mr. Wolfenson's employment agreement also contains a Claw-Back Provision.

## **Risk Assessment**

The Company believes that its compensation policies and practices for all employees, including executive officers, do not create risks that are reasonably likely to have a material adverse effect on the Company. Although a significant portion of our executive compensation program is performance-based, we have focused on aligning our compensation policies with the long-term interests of our stockholders and avoiding rewards that could create excessive or inappropriate risks to the Company.

## **COMPENSATION COMMITTEE REPORT**

The Compensation Committee, comprised of independent directors, reviewed and discussed the above Compensation Discussion and Analysis with the Company's management. Based on that review and discussion, the Compensation Committee recommended to the Board of Directors that the Compensation Discussion and Analysis be included in this proxy statement and incorporated in our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

### **Compensation Committee Members**

Robert G. Moussa, Chairman  
Srinj Conjeevaram  
Stephen T. Wills, CPA, MST  
Amy Paul

## Summary Compensation Table

The following table presents information regarding the compensation earned by our Chief Executive Officer, Chief Financial Officer and the next three highest paid executive officers in the years ended December 31, 2014, 2013 and 2012. We sometimes refer to these individuals collectively as our named executive officers.

- (1) This column reflects the discretionary cash bonus that was awarded to Mr. Quilty (\$30,000) and Mr. Wolfenson (\$20,000) in 2014 for efforts in managing the equity raise of \$86 million.
- (2) This column reflects the aggregate grant date fair value, as determined in accordance with FASB ASC Topic 718, of stock option and restricted share unit awards. See Note 10 of the Notes to Consolidated Financial Statements contained in our 2014 Annual Report on Form 10-K for an explanation of the assumptions made in valuing these awards. In 2014, the Compensation Committee granted to each named executive officer performance-based RSUs and option awards, as well as time-based option awards. The grant date fair value of the performance-based awards is based on the target level of achievement, which is equivalent to the maximum level for such awards. In addition, a discretionary time-based option award bonus was granted to Mr. Quilty and Mr. Wolfenson in 2014 with a fair value of \$92,160 and \$57,600, respectively, for efforts in managing the equity raise referred to in Footnote 1 above.
- (3) This column reflects the annual incentive earned for year end 2014 and paid in 2015, earned for year end 2013 and paid in 2014 and earned for year end 2012 and paid in 2013.
- (4) The amounts reported in this column for 2014 include the following:

Other Compensation	Quilty	Yetter	Cole	Eigner <sup>(a)</sup>	Wolfenson
401(k) Matching Contribution	\$ 6,253	\$ 10,370	\$ 10,400	\$ 10,984 <sup>(b)</sup>	\$ 6,200
Executive Health Services	\$ 2,380	\$ 2,190	\$ 2,186	\$ 2,000	\$ 2,190
Disability Insurance	\$ 5,305	\$ 235	\$ 235	\$ 138	\$ 235
Car Allowance	\$ 0	\$ 0	\$ 7,200	\$ 0	\$ 0

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- Presented in USD. Mr. Eigner's compensation is paid in Canadian dollars. For 2014, the amounts presented in this (a) summary compensation table have been converted from Canadian dollars to U.S. dollars using the average exchange rate of 1 Cdn. = \$1.10.
- (b) Mr. Eigner is not a participant in the Company's U.S. 401(k) Plan, but instead receives matching contributions under an RRSP Plan.
- (5) Mr. Eigner's compensation is paid in Canadian dollars. The average exchange rates for 2014, 2013 and 2012 were 1.10, 1.03, and 1.00, respectively.

## **Grants Of Plan-Based Awards**

The following table sets forth information relating to plan-based incentives, stock options and RSUs granted to our named executive officers in 2014.

(1) These columns show the dollar value of the potential payout to each named executive officer for 2014 under any non-equity incentive plan at target levels. The actual amounts of the annual incentive awards earned are reflected in the Non-Equity Incentive Plan Compensation column in the Summary Compensation Table.

(2) These columns reflect the target number of shares of stock with respect to performance-based RSUs or the number of shares underlying performance-based stock options to be paid out or vested upon achievement of certain performance objectives set by the Compensation Committee. See the Compensation Discussion and Analysis section for complete description of performance goals on which payments were based.

(3) This column shows the number of securities underlying time-based stock options granted in 2014.

(4) This column shows the per-share exercise or base price of the stock options granted in 2014.

(5) These amounts reflect the aggregate grant date fair value of the equity awards computed in accordance with FASB ASC Topic 718. For a discussion of the assumptions we made in valuing the stock awards, see Item 7 Management's Discussion and Analysis of Financial Condition and Results of Operations Stock-Based Compensation in our Annual Report on Form 10-K for the year ended December 31, 2014.

(6) Mr. Eigner's compensation is paid in Canadian dollars. The average exchange rate for 2014 was 1.10.

### **2012 Equity Incentive Plan**

The Company's 2012 Equity Incentive Plan authorizes the Company to grant equity-based and cash-based incentive compensation in the form of stock options, stock appreciation rights (or SARs), restricted shares, restricted share units, other share-based awards and cash-based awards, for the purpose of providing the Company's employees, officers, consultants and non-employee directors with incentives and rewards for performance. See the Compensation Discussion and Analysis section for complete description of performance goals on which payments were based.

**Time-Based Incentive Stock Options:** Time-based stock options will vest as to 25% of the shares on the grant date and 25% per year thereafter on the first, second, and third anniversaries of the grant date so long as the named executive officer remains employed by the Company. Vesting of the stock option will accelerate to 100% immediately upon a change in control (as defined in the 2012 Equity Incentive Plan) while the named executive officer remains employed. These stock options have a 10 year term.

**Performance-Based Incentive Stock Options:** Performance-based stock options will vest upon the achievement of performance goals specified by the Compensation Committee. Vesting of the stock option will accelerate to 100% immediately upon a change in control while the named executive officer remains employed. These stock options have a 10 year term.

**Performance-Based RSUs:** Performance-based RSUs will vest based upon the Company's achievement of performance goals specified by the Compensation Committee. Vesting of the performance-based RSUs granted in 2014 will accelerate to 100% immediately upon a change in control while the named executive officer remains employed. Named executive officers shall not have any rights of a stockholder until vesting of the awards.

## **Outstanding Equity Awards at Year-End**

The following table sets forth information regarding the outstanding option and stock awards held by the named executive officers as of December 31, 2014:

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27,000 of the time-based stock options awarded become exercisable as to 9,000 options on February 14<sup>th</sup> of 2015, (1) 2016 and 2017, while 20,100 performance-based stock options became exercisable, as determined by the Board of Directors, on February 12, 2015.

(2) 12,000 of the time-based stock options awarded become exercisable as to 6,000 options on February 13<sup>th</sup> of 2015 and 2016.

(3) 4,000 of the time-based stock options awarded become exercisable on February 16<sup>th</sup> of 2015.

9,000 of the time-based stock options awarded become exercisable as to 3,000 options on February 14<sup>th</sup> of 2015, (4) 2016 and 2017, while 8,500 performance-based stock options became exercisable, as determined by the Board of Directors, on February 12, 2015.

(5) 6,000 of the time-based stock options awarded become exercisable as to 3,000 options on February 13<sup>th</sup> of 2015 and 2016.

(6) 2,400 of the time-based stock options awarded become exercisable on February 16<sup>th</sup> of 2015.

9,000 of the time-based stock options awarded become exercisable as to 3,000 options on February 14<sup>th</sup> of 2015, (7) 2016 and 2017, while 8,800 performance-based stock options became exercisable, as determined by the Board of Directors, on February 12, 2015.

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17,625 of the time-based stock options awarded become exercisable as to 5,875 options on February 14<sup>th</sup> of 2015, (8) 2016 and 2017, while 11,300 performance-based stock options became exercisable, as determined by the Board of Directors, on February 12, 2015.

(9) 8,000 of the time-based stock options awarded become exercisable as to 4,000 options on February 13<sup>th</sup> of 2015 and 2016.

Market value was determined by the closing price of the Common Stock on the NASDAQ Stock Market of \$9.31 (10) per share on December 31, 2014. Awards became vested at the determination of the Board of Directors on February 12, 2015.

Market value was determined by the closing price of the Common Stock on the NASDAQ Stock Market of \$9.31 (11) per share on December 31, 2014. Time-based awards consist of a one-time grant for past services and retention factors of restricted share units to each named executive officer, which become vested on December 20<sup>th</sup> of 2015 and 2016.

Market value was determined by the closing price of the Common Stock on the NASDAQ Stock Market of \$9.31 (12) per share on December 31, 2014. Performance-based awards become vested once the market price of the Common Stock exceeds a target for a sixty day consecutive period by December 20, 2015. A Common Stock market price exceeding \$15.00 per share vests 25%, \$17.50 per share vests 58.3% and \$20.00 per share vests 100% of the awards.

(13) Market value was determined by the closing price of the Common Stock on the NASDAQ Stock Market of \$9.31 per share on December 31, 2014. Time-based vesting awards become vested on February 16<sup>th</sup> of 2015.

## Option Exercises and Stock Vested

The following table sets forth certain information concerning the exercise of option awards and the vesting of time-based and performance-based RSUs held by our named executive officers during 2014.

Name	Option Awards		Stock Awards	
	Number of Shares Acquired on Exercise (#)	Value Realized on Exercise (\$)	Number of Shares Acquired on Vesting (#)	Value Realized on Vesting (\$) <sup>(1)</sup>
Edward J. Quilty	6,250	5,000	24,150	249,230
John E. Yetter	3,125	2,500	11,300	117,060
Robert C. Cole	3,125	2,500	11,400	118,380
Frederic Eigner	3,750	3,000	11,200	115,740
Barry J. Wolfenson	8,750	19,338	15,750	170,925

(1) The value realized on vesting equals the number of shares acquired multiplied by the closing market price of our common stock on the acquisition date.

## Pension Benefits

We do not sponsor or maintain any pension plans for our named executive officers.

## **Nonqualified Deferred Compensation**

We have not adopted any non-qualified deferred contribution plans or other deferred compensation plans for our named executive officers.

### **Potential Payments Upon Termination or Change in Control**

The Company has entered into agreements and maintains plans and arrangements that require it to pay or provide compensation and benefits to the named executive officers in the event of certain terminations of employment or a change in control. The estimated amount payable or provided to each of these executives in each situation is summarized below. These estimates are based on the assumption that the various triggering events occurred on the last day of 2014, along with other material assumptions noted below. The actual amounts that would be paid to these executives upon termination or a change in control can only be determined at the time the actual triggering event occurs.

The amount of compensation and benefits described below does not take into account compensation and benefits that a named executive officer has earned prior to the applicable triggering event, such as the 2014 annual incentive payouts, equity awards that had previously vested in accordance with their terms, or vested benefits otherwise payable under the retirement plans and programs (unless those benefits are enhanced or accelerated). Please refer to the Non-Equity Incentive Plan Compensation column of the Summary Compensation Table for the amount of the 2014 annual incentive payout and the Outstanding Equity Awards at Year-End table for a summary of each named executive officer's vested equity awards. Please see the Summary Compensation Table for the annual incentive earned by our named executive officers in 2014.

Name and Triggering Event	Cash Severance (\$) <sup>(1)</sup>	Welfare and Other Benefits (\$) <sup>(2)</sup>	Stock Awards (\$) <sup>(3)</sup>	Total (\$) <sup>(4)</sup>
Mr. Quilty				
Voluntary termination	0	0	0	0
Involuntary termination without cause	1,000,000	23,146	0	1,023,146
CIC	0	0	945,896	945,896
Death	0	0	0	0
Disability	0	0	0	0
Retirement	0	0	0	0
Mr. Yetter				
Voluntary termination	0	0	0	0
Involuntary termination without cause	270,000	16,486	0	286,486
CIC	0	0	405,916	405,916
Death	0	0	0	0
Disability	0	0	0	0
	0	0	0	0

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Retirement Mr. Cole				
	0	0	0	0
Voluntary termination				
	250,000	11,573	0	261,573
Involuntary termination without cause				
	0	0	408,709	408,709
CIC				
	0	0	0	0
Death				
	0	0	0	0
Disability				
	0	0	0	0
Retirement Mr. Eigner				
	0	0	0	0
Voluntary termination				
	244,388	2,250	0	246,638
Involuntary termination without cause				
	0	0	405,916	405,916
CIC				
	0	0	0	0
Death				
	0	0	0	0
Disability				
	0	0	0	0
Retirement Mr. Wolfenson				
	0	0	0	0
Voluntary termination				
	300,000	16,791	0	316,791
Involuntary termination without cause				
	0	0	582,108	582,108
CIC				
	0	0	0	0

Death

0 0 0 0

Disability

0 0 0 0

Retirement

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(1) Amounts listed under "Cash Severance" are equal to each named executive officer's annual base salary in effect immediately prior to termination, except in the case of Mr. Quilty who shall receive payment equal to two times his annual base salary. These amounts are payable over 12 equal monthly installments, except in the case of Mr. Quilty who shall be paid over 24 equal monthly installments. Notwithstanding the foregoing, as a Canadian employee, Mr. Eigner will be entitled to a severance payment equal to the greater of his annual base salary or as required by common law. Mr. Eigner's compensation is paid in Canadian dollars.

(2) Pursuant to the terms of the applicable employment agreement, each named executive officer would be entitled to continued health care benefits at the Company's cost for 12 months, except in the case of Mr. Quilty who is entitled to 24 months of benefits. Amounts listed under "Welfare and Other Benefits" are equal to the cost of such health care benefits. Health benefits for Mr. Eigner include \$2,250 for Canada health care benefits plus \$2,000 for the Executive Medical Program, if applicable, which are included in the salary column of the Summary Compensation Table.

(3) Represents the accelerated vesting of unvested, outstanding equity awards as a result of the applicable termination trigger. For further details on specific awards and their applicable termination triggers, please see the narrative descriptions below.

(4) Represents the total payout under each termination category.

## 2012 RSU Retention Grant

On December 20, 2012, the Company made a one-time grant of time-based RSUs. The RSUs will vest as to 25% of the RSUs granted on the first, second, third and fourth anniversaries of the date of grant, so long as the NEO is employed by the Company on such dates. Any unvested RSUs will vest immediately upon termination of the named executive officer without cause or upon a change in control of the Company while the named executive officer remains employed.

## 2012 Performance-Based RSU Retention Grant

On December 20, 2012, the Company made a one-time grant of performance-based RSUs. Vesting of the performance-based RSUs will be contingent upon achievement and maintenance prior to December 20, 2015, for a period of sixty (60) consecutive trading days, of a Common Stock closing price per share equal to or greater than one or more of the prices as follows:

### Restricted Share Units Performance-Based Vesting

Name	Total Awarded (#)	Vested \$15.00/share (#)	Vested \$17.50/share (#)	Vested \$20.00/share (#)
Edward J. Quilty	120,000	30,000	40,000	50,000
John E. Yetter	60,000	15,000	20,000	25,000
Robert C. Cole	60,000	15,000	20,000	25,000
Frederic Eigner	60,000	15,000	20,000	25,000
Barry J. Wolfenson	75,000	20,000	25,000	30,000

In the event of a change in control, the performance objective will be determined by the Compensation Committee based upon the higher of (i) the per share of Common Stock consideration paid to stockholders of the Company in the change in control transaction, or (ii) the highest closing price per share of Common Stock maintained for any sixty (60) consecutive trading days during the period beginning on the date of grant and ending on the date of the change in control. To the extent, if any, that the performance-based RSUs are earned in accordance with the foregoing, such performance-based RSUs shall vest on December 20, 2015, so long as the named executive officer remains employed

with the Company on such date. Notwithstanding the foregoing, to the extent, if any, that the Compensation Committee determines that the stock price performance goal has been achieved while the NEO remains employed by the Company, then the resulting performance-based RSUs shall vest immediately if (i) the named executive officer dies; (ii) the Company terminates the officer's employment without cause; or (iii) a change in control of the Company occurs while the officer remains employed with the Company. This award is not anticipated to vest upon a change in control.



## **2012 Time-Based Stock Options**

25% vested in 2012, 2013 and 2014 with the remaining 25% vesting in 2015. Vesting of this award accelerates upon a change in control.

## **2013 Time-Based Stock Options**

25% vested in 2013 and 2014 with the remaining 50% vesting in 2015 and 2016. Vesting of this award accelerates upon a change in control.

## **2014 Time-Based Stock Options**

25% vested in 2014 with the remaining 75% vesting in 2015, 2016 and 2017. Vesting of this award accelerates upon a change in control.

## **2014 Performance-Based Options**

This award vests based on the Board certification of performance results in 2015. Vesting of this award accelerates upon a change in control based on actual performance results.

## **2014 Performance-Based RSUs**

This award vests based on the Board certification of performance results in 2015. Vesting of this award accelerates upon a change in control based on actual performance results.

## CODE OF ETHICS

The Company has adopted a code of ethics that applies to its principal executive officer, principal financial officer, principal accounting officers (controllers) and persons performing similar functions. The Company has also adopted a code of ethics for its non-financial personnel, as amended and restated on December 5, 2014. The Company has posted its financial and non-financial codes of ethics on its website at <http://www.dermasciences.com> under the heading "Corporate Governance" in the Investor Relations section.

## COMPLIANCE WITH SECTION 16(a) OF THE EXCHANGE ACT

Section 16(a) of the Securities Exchange Act of 1934 (the "Exchange Act") requires the Company's directors and executive officers, and persons who own more than ten percent of a registered class of the Company's equity securities, to file with the SEC initial reports of ownership and reports of changes in ownership of Common Stock and other equity securities of the Company. Officers, directors and greater than ten percent stockholders are required by SEC regulation to furnish the Company with copies of all Section 16(a) forms they file.

To the Company's knowledge, based solely on a review of the copies of such reports furnished to the Company, all reports under Section 16(a) required to be filed by its officers, directors and greater than ten-percent beneficial owners were timely filed during 2014, other than the following:

Stephen T. Wills filed a Form 4 on May 28, 2014 to report a cashless option exercise on May 23, 2014.

C. Richard Stafford filed a Form 4 on May 28, 2014 to report an option exercise on May 23, 2014.

## SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The following table sets forth as of March 30, 2015 certain information regarding the beneficial ownership of shares of the Company's Common Stock, based on 25,707,657 outstanding shares as of such date, by: (i) each person known by the Company to own beneficially more than 5% of the outstanding shares of Common Stock, (ii) each director of the Company, including director nominees, (iii) each officer of the Company, and (iv) all directors and officers of the Company as a group:

Name and Address of Beneficial Owner <sup>(1)</sup>	Number of Shares Beneficially Owned <sup>(22)</sup>	Percent Beneficially Owned <sup>(22)</sup>	
Felix J. Baker and Julian C. Baker <sup>(2)</sup>	3,537,137	13.76	%
Broadfin Capital, LLC <sup>(3)</sup>	2,130,477	8.29	%
FMR LLC <sup>(4)</sup>	1,951,400	7.59	%
Consonance Capital Management LP <sup>(5)</sup>	1,632,627	6.31	%
Jennison Associates LLC <sup>(6)</sup>	1,529,166	5.86	%
Brett D. Hewlett <sup>(7)</sup>	924,130	3.59	%

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Edward J. Quilty <sup>(8)</sup>	403,095	1.55	%
Barry J. Wolfenson <sup>(9)</sup>	212,134		*
Robert C. Cole <sup>(10)</sup>	185,180		*
John E. Yetter, CPA <sup>(11)</sup>	176,182		*
Frederic Eigner <sup>(12)</sup>	170,531		*
Stephen T. Wills, CPA, MST <sup>(13)</sup>	137,859		*
Bruce F. Wesson <sup>(14)</sup>	102,213		*
Srini Conjeevaram <sup>(15)</sup>	81,750		*
Robert G. Moussa <sup>(16)</sup>	73,646		*
C. Richard Stafford, Esq. <sup>(17)</sup>	55,000		*
Amy Paul <sup>(18)</sup>	20,250		*
Samuel E. Navarro <sup>(19)</sup>			*
John Caminis, M.D. <sup>(20)</sup>			*
All directors and officers as a group (14 persons) <sup>(21)</sup>	2,541,970	9.85	%

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\* Less than 1% ownership interest.

- (1) Except as otherwise noted, the address of each of the persons listed is: 214 Carnegie Center, Suite 300, Princeton, New Jersey 08540.  
Felix J. Baker and Julian C. Baker can be reached at: c/o Baker Bros. Advisors LP, 667 Madison Ave, 21<sup>st</sup> Floor, New York, New York 10065. The Bakers control the investment decision with respect to the aggregate shares held
- (2) by 667, L.P. (324,127 shares), Baker Brothers Life Sciences, L.P. (3,133,714 shares) and 14159, L.P. (79,296 shares).  
Broadfin Capital, LLC can be reached at: 300 Park Avenue, 25<sup>th</sup> Floor, New York, NY 10022. Broadfin Capital, LLC's ownership consists of 2,130,477 shares of Common Stock beneficially owned by Broadfin Capital, LLC,
- (3) Broadfin Healthcare Master Fund, Ltd. and Kevin Kotler, Managing Member of Broadfin Capital, LLC and Director of Broadfin Healthcare Master Fund, Ltd.
- (4) FMR LLC can be reached at: 245 Summer Street, Boston, Massachusetts 02210. Ownership consists of 1,951,400 shares of Common Stock.  
Consonance Capital Management LP (Consonance Capital) can be reached at: 1370 Avenue of the Americas, Suite 3301, New York, NY 10019. Ownership of Consonance Capital, an investment adviser, consists of 1,540,127 shares of Common Stock, including 181,818 warrants, owned by Consonance Capital and 92,500 shares of
- (5) Common Stock owned by Consonance Capital Opportunity Fund Management LP. Each of Consonance Capman GP LLC, as general partner of Consonance Capital, and Mitchell Blutt, as the Manager & Member of Consonance Capman GP LLC and Chief Executive Officer of Consonance Capital, may be deemed to beneficially own the 1,632,627 shares of Common Stock owned by Consonance Capital.  
Jennison Associates LLC, a subsidiary of Prudential Financial, Inc., can be reached at: 466 Lexington Ave, New
- (6) York, New York 10017. Ownership consists of: 1,136,666 shares of Common Stock and warrants to purchase 392,500 shares of Common Stock.  
Brett Hewlett can be reached at: Wilson Road South, Paengaroa, Private Bag 1, Te Puke, New Zealand. Ownership includes an aggregate of 864,880 shares held by Comvita Limited. Mr. Hewlett is the Chief Executive Officer of Comvita Limited and therefore may be deemed to share voting and dispositive power with respect to the securities
- (7) held by Comvita Limited. Mr. Hewlett disclaims beneficial ownership of the securities held by Comvita Limited. Mr. Hewlett's direct ownership consists of 20,500 shares of Common Stock and exercisable options to purchase up to 31,000 shares of Common Stock, and 7,750 restricted share units, which will vest within 60 days of March 30, 2015.  
Edward J. Quilty's ownership consists of: 146,257 shares of Common Stock and exercisable options to purchase
- (8) 256,838 shares of Common Stock. 47,000 shares of Common Stock owned by Mr. Quilty are held in a margin account and either are or could be pledged as security for certain margin account transactions.
- (9) Barry J. Wolfenson's ownership consists of: 63,277 shares of Common Stock and exercisable options to purchase 148,857 shares of Common Stock.
- (10) Robert C. Cole's ownership consists of: 51,723 shares of Common Stock and exercisable options to purchase 133,457 shares of Common Stock.
- (11) John E. Yetter's ownership consists of: 43,325 shares of Common Stock and exercisable options to purchase 132,857 shares of Common Stock.
- (12) Frederic Eigner's ownership consists of: 37,974 shares of Common Stock and exercisable options to purchase 132,557 shares of Common Stock.  
Stephen T. Wills' ownership consists of: 64,109 shares of Common Stock and exercisable options to purchase
- (13) 60,750 shares of Common Stock, and 13,000 restricted share units, which will vest within 60 days of March 30, 2015.
- (14) Bruce F. Wesson's ownership consists of: 59,713 shares of Common Stock, exercisable options to purchase 34,750 shares of Common Stock and 7,750 restricted share units that will vest within 60 days of March 30, 2015.
- (15) Srini Conjeevaram's ownership consists of: 33,000 shares of Common Stock and exercisable options to purchase 41,000 shares of Common Stock, and 7,750 restricted share units, which will vest within 60 days of March 30,

2015.

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- Robert G. Moussa's ownership consists of: 33,646 shares of Common Stock and exercisable options to purchase (16) 32,250 shares of Common Stock, and 7,750 restricted share units, which will vest within 60 days of March 30, 2015.
- C. Richard Stafford's ownership consists of: 15,000 shares of Common Stock and exercisable options to purchase (17) 32,250 shares of Common Stock, and 7,750 restricted share units which will vest, within 60 days of March 30, 2015. All of Mr. Stafford's shares of Common Stock are held in a margin account and either are or could be pledged as security for certain margin account transactions.
- Amy Paul's ownership consists of: 2,500 shares of Common Stock, 3,750 stock options currently exercisable, and (18) 3,750 stock options and 10,250 restricted share units which will vest within 60 days of March 30, 2015.
- Samuel E. Navarro was nominated for election by the Board of Directors to serve as a director effective May (19) 2015.
- (20) John Caminis has served as our Chief Medical Officer since March 9, 2015.
- (21) Ownership consists of: Common Stock, restricted share units and options currently exercisable and exercisable within 60 days of March 30, 2015 to purchase shares of Common Stock.
- The number of shares beneficially owned and the percent beneficially owned by each entity or individual are based upon 25,707,657 shares of Common Stock outstanding and assume the exercise of all exercisable options (including those that would be exercisable within 60 days of March 30, 2015), the vesting of restricted share units scheduled to vest within 60 days of March 30, 2015 and the exercise of all warrants owned by such entity or (22) individual. The percent beneficially owned is a fraction the numerator of which is the number of shares of Common Stock beneficially owned by each entity or individual and the denominator of which is the number of outstanding shares of Common Stock plus the number of shares of Common Stock which would be issued upon exercise by the subject entity or individual of its/his/her *own* options and warrants. This method of computing the percent beneficially owned results in the aggregate ownership percentages of all owners exceeding 100%.

## CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

We have an exclusive licensing, manufacturing and sales agreement with Comvita New Zealand Limited ( Comvita New Zealand ), an affiliate of Comvita, a stockholder. In 2014, 2013 and 2012, we made purchases from Comvita New Zealand of \$2,203,992, \$2,266,964, and \$1,653,075, respectively, for medical grade honey. In addition, in 2014, 2013 and 2012, we incurred royalties of \$1,357,040, \$1,240,818 and \$901,826, respectively, payable to Comvita New Zealand. Amounts due to Comvita New Zealand for raw material purchases and royalties totaled \$625,947, \$421,578 and \$288,596 at December 31, 2014, 2013 and 2012, respectively.

We are also a shareholder of Comvita. In 2013 and 2014, we purchased 2,802,277 common shares in the capital of Comvita for \$8,483,693. At December 31, 2014 this investment represented 7.1% of Comvita's outstanding common shares. Additionally, Mr. Quilty, the President and Chief Executive Officer of the Company, is a director of Comvita.

Our Audit Committee reviews in advance all related party transactions. The Audit Committee shall approve only those related party transactions that are determined to be in, or not inconsistent with, the best interests of the Company and its stockholders, taking into account all available facts and circumstances as the Audit Committee determines in good faith to be necessary. These facts and circumstances will typically include, but not be limited to, the benefits of the transaction to the Company; the availability of other sources for comparable products or services; the terms of the transaction; the terms of comparable transactions that would be available to unrelated third parties or to employees generally; and the impact on a director's independence in the event the related party is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer.

In reviewing and approving such transactions, the Audit Committee shall obtain, or shall direct management to obtain on its behalf, all information that the Audit Committee believes to be relevant and important to a review of the transaction prior to its approval.

The Audit Committee may adopt any further policies and procedures relating to the approval of related party transactions that it deems necessary or advisable from time to time.

## COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION

The members of the Compensation Committee during 2014 were Messrs. Moussa, Wills and Conjeevaram and Ms. Paul. Except for Mr. Wills, who served as our Chief Financial Officer from July 1997 to July 2000, none of the Compensation Committee members was at any time an officer or employee of the Company. None of our executive officers serve as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

## ADDITIONAL INFORMATION

### Audit Committee

#### Information Relative to Audit Committee

The Company has established an audit committee in accordance with section 3(a)(58)(A) of the Securities Exchange Act of 1934. Members of the Audit Committee are designated in the table under the heading *Proposal 1 Election of Directors* above. Stephen T. Wills, CPA, MST, Chairman of the Audit Committee, is the Audit Committee financial expert and is independent as that term is used in NASDAQ Marketplace Rule 5605(a)(2).

#### Audit Committee Charter

The Company's Board of Directors has adopted a written charter for the Audit Committee. The charter of the Audit Committee may be viewed on the Company's website at <http://www.dermasciences.com> under the heading Corporate Governance in the Investor Relations section.

#### Audit Committee Financial Expert

Stephen T. Wills, CPA, MST has been determined by the Company's Board of Directors to be its Audit Committee Financial Expert. In making this determination, the Board relied on Mr. Wills' extensive education and experience in financial matters as set forth above under the heading *Proposal 1 Election of Directors Information Relative to Directors and Nominees*. Among his qualifications, the Board considers that Mr. Wills possesses the following financial capabilities:

1. An understanding of accounting principles generally accepted in the United States and financial statements;
2. The ability to assess the general application of such principles in connection with the accounting for estimates, accruals and reserves;
3. Experience preparing, auditing, analyzing and evaluating financial statements that present a breadth and level of complexity of accounting issues that are generally comparable to the breadth and complexity of issues that can reasonably be expected to be raised by the Company's financial statements, together with experience actively supervising persons engaged in the foregoing activities;
4. An understanding of internal controls and procedures for financial reporting; and
5. An understanding of audit committee functions.





## **Audit Committee Members**

The following individuals are members of the Audit Committee of the Company's Board of Directors:

Stephen T. Wills, CPA, MST, Chairman  
Srini Conjeevaram  
C. Richard Stafford, Esq.  
Bruce F. Wesson

## **Audit Committee Report**

THE FOLLOWING REPORT OF THE AUDIT COMMITTEE SHALL NOT BE DEEMED TO BE SOLICITING MATERIAL OR TO BE FILED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES ACT OF 1933 OR THE SECURITIES EXCHANGE ACT OF 1934 OR INCORPORATED BY REFERENCE IN ANY DOCUMENT SO FILED.

The Audit Committee met privately with KPMG and Company financial personnel, each of whom has unrestricted access to the Audit Committee. The Audit Committee met with management periodically during the year to consider the adequacy of the Company's internal controls and the objectivity of its financial reporting. The Audit Committee discussed these matters with KPMG and with appropriate Company financial personnel.

The Audit Committee also discussed with the Company's senior management and KPMG the process used for certifications by the Company's Chief Executive Officer and Chief Financial Officer which are required by the SEC and the Sarbanes-Oxley Act of 2002 for certain of the Company's filings with the SEC.

Management has primary responsibility for the implementation of the system of internal controls and for the preparation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States. KPMG audited the financial statements prepared by management for the year ended December 31, 2014, expressed an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of the Company in conformity with accounting principles generally accepted in the United States and discussed with the Audit Committee any issues they believed should be raised with the Audit Committee.

The Audit Committee reviewed with management and with KPMG the Company's financial statements and met separately with both management and KPMG to discuss and review those financial statements and reports prior to their issuance. Management has represented to the Audit Committee, and KPMG has confirmed, that the financial statements were prepared in accordance with accounting principles generally accepted in the United States.

The Audit Committee discussed and reviewed with KPMG all communications required by standards of the Public Company Accounting Oversight Board (PCAOB), including those described in PCAOB Auditing Standards No. 16, Communication with Audit Committees and, with and without management present, discussed and reviewed the results of KPMG's audit of the 2014 annual financial statements and internal controls over financial reporting as of December 31, 2014.

Based on the above-mentioned reviews and discussions with management and KPMG, the Audit Committee recommended to the Board that the Company's audited consolidated financial statements be included in its Annual Report on Form 10-K for the year ended December 31, 2014.

For the Audit Committee:

Stephen T. Wills, CPA, MST, Chairman  
Srini Conjeevaram, Member

C. Richard Stafford, Esq., Member  
Bruce F. Wesson, Member

## **Compensation Committee**

### **Compensation Committee Charter**

The Company's Board of Directors has adopted a written charter for the Compensation Committee. The charter of the Compensation Committee may be viewed on the Company's website at <http://www.dermasciences.com> under the heading "Corporate Governance" in the Investor Relations section.

### **Compensation Committee Members**

The following individuals are members of the Compensation Committee of the Company's Board of Directors:

Robert G. Moussa, Chairman  
Srini Conjeevaram  
Stephen T. Wills, CPA, MST  
Amy Paul

## **OTHER BUSINESS**

Management of the Company knows of no other business which will be presented for consideration at the Meeting, but should any other matters be brought before the Meeting it is intended that the persons named in the accompanying proxy will vote at their discretion.

## **STOCKHOLDER PROPOSALS AND COMMUNICATIONS**

Pursuant to Rule 14a-8 under the Exchange Act, stockholders may present proper proposals for inclusion in the Company's proxy statement for consideration at the 2016 annual meeting of stockholders by submitting their proposals to the Company in a timely manner. In order to be so included for the next annual meeting, stockholder proposals must be received by the Company no later than December 11, 2015 and must otherwise comply with the requirements of Rule 14a-8. All such proposals should be in compliance with the applicable regulations of the SEC.

In addition, the Company's Bylaws have an advance notice procedure with regard to nominations for the election of directors to be held at an annual meeting of stockholders by any stockholder. In general, the Company will consider nominations for directors submitted by any stockholder, only if such stockholder has given timely notice in proper written form of such nomination or nominations, setting forth certain specified information relating to such stockholder and his or her nominations. To be timely, notice must be received by the Chairman of the Board no later than March 20, 2016. Nominations that are not received in a timely manner will not be voted on at the 2016 annual meeting of stockholders. Notices of intent to nominate candidates for election as directors or other stockholder communications should be submitted to: Derma Sciences, Inc., 214 Carnegie Center, Suite 300, Princeton, New Jersey 08540.

Stockholders may communicate with our Board of Directors by sending correspondence to our Board of Directors, or to any individual director, at the following address: Derma Sciences, Inc. Board of Directors, 214 Carnegie Center, Suite 300, Princeton, New Jersey 08540, Attention: Chief Legal Officer.

Your communications should indicate whether you are a Derma Sciences, Inc. stockholder. Depending on the subject matter, we will either forward the communication to the director or directors to whom it is addressed, attempt to handle the inquiry directly or not forward the communication if it is unduly hostile, threatening, illegal, does not reasonably relate to the Company or its business, or is similarly inappropriate.

## STOCKHOLDERS SHARING THE SAME ADDRESS

The SEC has adopted rules that permit companies and intermediaries (such as brokers) to implement a delivery procedure called householding. Under this procedure, multiple stockholders who reside at the same address may receive a single copy of our Annual Report on Form 10-K and proxy materials, including the Notice of Internet Availability of Proxy Materials, unless the affected stockholder has provided contrary instructions. This procedure reduces our printing costs and postage fees.

Once again this year, the Company and a number of brokers with account holders who beneficially own the Common Stock will be householding our Annual Report on Form 10-K and proxy materials, including the Notice of Internet Availability of Proxy Materials. A single Notice of Internet Availability of Proxy Materials and, if applicable, a single set of our Annual Report on Form 10-K and other proxy materials will be delivered to multiple stockholders sharing an address unless contrary instructions has been received from the affected stockholders. Once you have received notice from your broker or us that it or we will be householding communications to your address, householding will continue until you are notified otherwise or until you revoke your consent.

Upon written or oral request, we will promptly deliver a separate copy of the Notice of Internet Availability of Proxy Materials and, if applicable, a separate Annual Report on Form 10-K and set of proxy materials to any beneficial owner at a shared address to which a single copy of any of those documents was delivered. To receive a separate copy of the Notice of Internet Availability of Proxy Materials and, if applicable, a separate Annual Report on Form 10-K and set of proxy materials, you may write or call the Corporate Secretary of the Company at Derma Sciences, Inc., 214 Carnegie Center, Suite 300, Princeton, New Jersey 08540, Attention: Corporate Secretary, telephone 609-514-4744. If you live at the same address as another stockholder and are receiving multiple copies of our proxy materials, please contact us at the telephone number or address above if you only want to receive one copy of those materials.

## ANNUAL REPORT

THE COMPANY WILL PROVIDE WITHOUT CHARGE TO EACH BENEFICIAL HOLDER OF COMMON STOCK OR PREFERRED STOCK ON THE RECORD DATE, UPON WRITTEN REQUEST OF ANY SUCH PERSON, A COPY OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K FOR THE FISCAL YEAR ENDED DECEMBER 31, 2014 AS FILED WITH THE SEC. ANY SUCH REQUEST SHOULD BE MADE IN WRITING TO THE CORPORATE SECRETARY, DERMA SCIENCES, INC., 214 CARNEGIE CENTER, SUITE 300, PRINCETON, NEW JERSEY 08540.

April 9, 2015

By Order of the Board of Directors,  
Edward J. Quilty, Chairman

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